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Legislative Audit Division

State of Montana

Report to the Legislature

March 1998

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1997

Montana Single Audit Report

This document is prepared in accordance with the federal Single Audit Act of 1984 and OMB Circular A-128. It contains the auditor's reports on Montana's General Purpose Financial Statements and Schedules of Federal Financial Assistance for the fiscal years ended June 30, 1996 and 1997, as well as Reports on Internal Controls and Compliance, a Schedule of Questioned Costs, and Federal Issues.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

March 1998

The Legislative Audit Committee
of the Montana State Legislature:

This is our Single Audit Report of the state of Montana for the two fiscal years ended June 30, 1997. This document contains the independent auditor's reports on the state of Montana's General Purpose Financial Statements and Schedules of Federal Financial Assistance for the fiscal years ended June 30, 1996 and 1997. It also contains reports on the state of Montana's internal controls and compliance with federal and state laws and regulations. The Single Audit was conducted in accordance with *Government Auditing Standards* and Office of Management and Budget Circular A-128.

The review disclosed certain questioned costs and deficiencies, which are summarized in the Schedule of Questioned Costs on page C-11 and the Federal Issues, Recommendations and Responses by State Agency in section D of this document. Agency management has responded to the audit findings, and the responses are included in the report following each issue and recommendation. Unless satisfactorily implemented or no longer applicable, prior findings affecting federal programs are included in the Federal Issues, Recommendations and Responses by State Agency section of this document. Generally, a prior audit finding is identified as such in the narrative of the finding.

Respectfully submitted,

Scott A Seacat

Scott A. Seacat
Legislative Auditor

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FY97 Financial Section
FY96 Financial Section
Federal Single Audit Reports
Audit Issues

Legislative Audit Division

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1997

Montana Single Audit Report

All financial compliance audit staff were involved in the individual agency audits and statewide audits supporting this audit report. Staff involved in incorporating results from individual agency audits and statewide audits into this audit report include Jody Brandt, Jim Manning, Vickie Murphy, Charles Nemec, and Lorry Parriman.

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FY97 Financial Section

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON THE GENERAL PURPOSE FINANCIAL STATEMENTS AND THE SUPPLEMENTARY SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Combined Balance Sheet All Fund Types, Account Groups and Discretely Presented Component Units, Combining Balance Sheet Component Units-Proprietary Fund Types, Statement of Plan Net Assets Component Unit-Pension Trust Fund, and Combining Balance Sheet Component Units-All Higher Education Funds of the state of Montana as of June 30, 1997, and the related Combined Statement of Revenues, Expenditures and Changes in Fund Balances All Governmental Fund Types and Expendable Trust Funds, Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis-Unreserved Fund Balance General and Special Revenue Fund Types, Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units, Combining Statement of Revenues, Expenses and Changes in Retained Earnings Component Units-Proprietary Fund Types, Combining Statement of Changes in Plan Net Assets Pension Trust Funds and Discretely Presented Component Unit, Statement of Changes in Fund Balance Component Units-All Higher Education Funds, Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes Component Units-Higher Education Fund Type and the related Combined Statement of Cash Flows All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units and Combining Statement of Cash Flows Component Units-Proprietary Fund Types for the year then ended. These general purpose financial statements are the responsibility of the state of Montana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which statements reflect total assets of 5.36 percent, liabilities of 7.32 percent, and net operating revenues and expenditures/transfers-out of 28.86 and 29.83 percent, respectively, in the Enterprise Fund. This financial activity was audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery, is based solely upon the report of the other auditor.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require

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that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the report of the other auditor, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana as of June 30, 1997, and the results of its operations, the cash flows of its proprietary and nonexpendable trust fund types and discretely presented component units, the changes in plan net assets of its pension trust funds and discretely presented component unit, and the changes in fund balance and current funds revenues, expenditures, transfers and other changes of the component unit higher education funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 1997 on our consideration of the state of Montana's internal control structure and a report dated October 30, 1997 on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the state of Montana taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,
James Gillett
James H. Gillett, CPA
Deputy Legislative Auditor

October 30, 1997

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STATE OF MONTANA
Combined Balance Sheet
All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1997
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
ASSETS/OTHER DEBITS	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
Assets:						
Cash/Cash Equivalents (Note 4)	$ 39,587	$ 219,073	$ 30,478	$ 22,274	$ 17,329	$ 17,991
Receivables (Net of Uncollectibles)	72,373	46,947	3,729	1,187	17,113	938
Interfund Loans Receivable (Note 13)	22,179	43,795	-	-	-	440
Due from Other Governments	5,328	119,284	-	-	-	19
Due from Primary Government (Note 13)	-	-	-	-	-	-
Due from Component Units (Note 13)	293	80	21	-	17	1,095
Due from Other Funds (Note 13)	35,691	10,951	661	335	428	4,009
Inventories	1,792	36,367	-	-	6,092	926
Equity in Pooled Investments (Note 4)	-	9,500	-	-	-	-
Long-Term Loans/Notes Receivable	-	38,935	37,306	-	33,245	-
Advances to Other Funds (Note 13)	7,330	263	-	-	-	-
Investments (Note 4)	-	19,294	1,666	-	20,271	34,810
Securities Lending Collateral (Note 4)	-	15,593	1,850	567	6,162	20,627
Land	-	-	-	-	800	236
Buildings/Improvements	-	-	-	-	5,491	9
Equipment	-	-	-	-	4,106	132,577
Other Fixed Assets	-	-	-	-	1,398	2
Construction in Progress	-	-	-	-	-	1,672
Accumulated Depreciation	-	-	-	-	(6,129)	(77,226)
Intangible Assets	-	-	-	-	67	31
Deferred Charges	-	-	-	-	1,086	-
Other Assets	3,289	1,343	-	4	1,923	148
Other Debits:						
Amount Available - Debt Service Funds	-	-	-	-	-	-
Resources to be Provided in Future Years	-	-	-	-	-	-
TOTAL ASSETS/OTHER DEBITS	$ 187,862	$ 561,425	$ 75,711	$ 24,367	$ 109,399	$ 138,304

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND TYPES	ACCOUNT GROUPS		COMPONENT UNITS		
TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	PROPRIETARY FUND TYPES	PENSION TRUST FUND	HIGHER EDUCATION FUNDS
$ 824,955	$ -	$ -	$ 53,103	$ 51,661	$ 153,027
117,150	-	-	28,256	17,189	42,856
-	-	-	-	-	4,065
2	-	-	-	-	3,914
-	-	-	185	-	1,334
1,357	-	-	-	-	-
38,214	-	-	1,884	850	19,150
-	-	-	49	-	4,097
3,407,594	-	-	-	1,547,023	2,530
4,624	-	-	413,359	-	234
31	-	-	-	-	677
349,645	-	-	620,195	125,159	3,709
409,924	-	-	101,515	193,936	1,331
49,423	62,645	-	-	35	13,310
277	306,556	-	-	158	351,141
145	111,692	-	4,153	231	140,438
2	48,679	-	-	-	79,068
-	14,281	-	-	-	96,298
(211)	-	-	(2,237)	(242)	-
1	-	-	6,420	80	3,301
-	-	-	5,977	-	2,225
9,045	-	-	538	-	5,799
-	-	29,534	-	-	-
-	-	287,283	-	-	-
$ 5,212,178	$ 543,853	$ 316,817	$ 1,233,397	$ 1,936,080	$ 928,504

(Continued on Next Page)

STATE OF MONTANA
Combined Balance Sheet - Continued
All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1997
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
LIABILITIES/EQUITY/OTHER CREDITS	**GENERAL**	**SPECIAL REVENUE**	**DEBT SERVICE**	**CAPITAL PROJECTS**	**ENTERPRISE**	**INTERNAL SERVICE**
Liabilities:						
Accounts Payable	$ 80,252	$ 102,913	$ 4,422	$ 1,000	$ 7,056	$ 2,482
Lottery Prizes Payable	-	-	-	-	3,052	-
Interfund Loans Payable (Note 13)	-	58,586	-	203	-	85
Advances from Other Funds (Note 13)	-	7,603	-	-	-	-
Due to Other Governments	30,356	3,597	-	-	18	-
Due to Primary Government (Note 13)	-	-	-	-	-	-
Due to Component Units (Note 13)	217	928	15	14	5	46
Due to Other Funds (Note 13)	15,060	44,354	1,812	354	6,360	1,901
Deferred Revenue	19,252	35,127	772	-	3,150	837
Lease/Installment Purchase Payable (Note 11)	-	-	-	-	2	2,597
Bonds/Notes Payable (Net) (Note 12)	-	-	-	-	48,090	2,314
Property Held in Trust	975	1,382	-	2	213	23
Securities Lending Liability (Note 4)	-	15,593	1,850	567	6,162	20,627
Compensated Absences Payable (Note 1)	-	-	-	-	704	2,864
Net Pension Obligation Payable (Note 12)	-	-	-	-	-	-
Estimated Insurance Claims (Note 9)	-	-	-	-	1,659	23,681
Arbitrage Rebate Tax Payable	-	-	-	-	420	-
Other Liabilities	1	19	-	-	-	-
Total Liabilities	146,113	270,102	8,871	2,140	76,891	57,457
Equity/Other Credits:						
Investment in General Fixed/Plant Assets	-	-	-	-	-	-
Contributed Capital (Note 17)	-	-	-	-	5,014	5,769
Retained Earnings:						
Reserved for Debt Service	-	-	-	-	-	-
Unreserved	-	-	-	-	27,494	75,078
Fund Balances:						
Reserved for Encumbrances	2,312	37,231	-	-	-	-
Reserved for Inventories	1,792	23,369	-	-	-	-
Reserved for Advances to Other Funds (Note 13)	7,330	-	-	-	-	-
Reserved for Long-Term Loans	-	38,935	37,306	-	-	-
Reserved for Long-Term Advances	-	263	-	-	-	-
Reserved for Debt Service	-	-	29,534	-	-	-
Reserved for Trusts/Endowments (Note 15)	-	14,801	-	-	-	-
Reserved for Construction	-	-	-	-	-	-
Reserved for Retirement Systems	-	-	-	-	-	-
Unreserved, Undesignated	30,315	176,724	-	22,227	-	-
Total Equity/Other Credits	41,749	291,323	66,840	22,227	32,508	80,847
TOTAL LIABILITIES/EQUITY/OTHER CREDITS	$ 187,862	$ 561,425	$ 75,711	$ 24,367	$ 109,399	$ 138,304

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND TYPES	ACCOUNT GROUPS		COMPONENT UNITS		
TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	PROPRIETARY FUND TYPES	PENSION TRUST FUND	HIGHER EDUCATION FUNDS
$ 60,026	$ -	$ -	$ 6,785	$ 176	$ 24,428
-	-	-	-	-	-
1,040	-	-	-	6,500	4,065
20	-	-	-	-	678
323,077	-	-	-	3	338
-	-	-	675	40	2,148
294	-	-	-	-	-
22,171	-	-	1,818	-	18,343
1,544	-	-	16,689	-	11,842
-	-	1,667	-	10	1,590
-	-	264,693	516,645	-	201,564
692,560	-	-	696	10	6,320
409,924	-	-	101,515	193,936	1,331
107	-	47,310	773	35	29,452
-	-	3,074	-	-	-
-	-	-	520,785	-	-
-	-	73	242	-	-
3,097	-	-	-	-	-
1,513,860	-	316,817	1,166,623	200,710	302,099
-	543,853	-	-	-	537,817
-	-	-	90,668	-	-
-	-	-	89,097	-	-
-	-	-	(112,991)	-	-
-	-	-	-	-	690
-	-	-	-	-	-
-	-	-	-	-	-
3,001	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,083,276	-	-	-	-	30,679
-	-	-	-	-	14,636
2,488,015	-	-	-	1,735,370	-
124,026	-	-	-	-	42,583
3,698,318	543,853	-	66,774	1,735,370	626,405
$ 5,212,178	$ 543,853	$ 316,817	$ 1,233,397	$ 1,936,080	$ 928,504

STATE OF MONTANA
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
For the Fiscal Year Ended June 30, 1997
(Expressed In Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST
REVENUES:					
Licenses/Permits	$ 33,312	$ 79,449	$ -	$ -	$ 1,745
Taxes:					
Natural Resource	26,685	8,205	362	4,577	33,174
Individual Income	371,254	8	34,994	-	-
Corporate Income	64,079	-	7,212	-	10,709
Property	208,407	7,964	-	-	-
Fuel	-	174,934	-	-	-
Payroll	-	483	-	-	-
Other (Note 1)	69,628	49,811	10,901	2,336	23,737
Charges for Services/Fines/Forfeits	24,669	67,409	1,280	271	186
Investment Earnings	14,532	8,959	4,204	1,046	8,652
Securities Lending Income	7,188	900	171	87	26
Sale of Documents/Mdse./Property	294	3,437	2,097	-	-
Rentals/Leases/Royalties	106	106	-	-	5
Contributions/Premiums	-	4,211	-	-	58,601
Grants/Contracts/Donations	-	7,759	-	-	1,568
Federal	18,796	834,111	144	-	4,727
Federal Indirect Cost Recoveries	122	1,815	-	-	-
Other Revenues	157	813	-	2	-
Total Revenues	839,229	1,250,374	61,365	8,319	143,130
Intrafund Revenues	(107)	(2,576)	-	-	-
Net Revenues	839,122	1,247,798	61,365	8,319	143,130
EXPENDITURES:					
Current:					
General Government	69,300	12,291	55	-	45,545
Public Safety/Corrections	81,040	47,207	-	-	23,908
Transportation	427	324,755	-	-	39
Health/Social Services	226,196	562,233	-	-	-
Education/Cultural	481,233	74,377	-	-	379
Resource Development/Recreation	19,848	72,971	127	26	-
Economic Development/Assistance	3,243	102,447	62	-	66,131
Debt Service:					
Principal Retirement	570	901	22,556	-	20
Interest/Fiscal Charges	1,916	534	12,476	84	6
Capital Outlay	4,040	38,384	-	27,758	8
Securities Lending	6,788	856	161	82	25
Total Expenditures	894,601	1,236,956	35,437	27,950	136,061
Intrafund Expenditures	(107)	(2,576)	-	-	-
Net Expenditures	894,494	1,234,380	35,437	27,950	136,061
Excess of Rev. Over (Under) Expend.	(55,372)	13,418	25,928	(19,631)	7,069
OTHER FINANCING SOURCES (USES):					
Loan Proceeds	-	5,130	-	2,162	-
Bond Proceeds	295	9,699	-	30,075	-
Inception of Lease/Installment Contract	174	74	-	102	-
General Fixed Asset Sale Proceeds	156	82	-	-	-
Operating Transfers In (Note 13)	154,726	33,129	27,487	4,112	55
Operating Transfers Out (Note 13)	(6,426)	(39,869)	(55,745)	(2,258)	(1,331)
Operating Transfers to Component Units (Note 13)	(100,784)	(13,849)	-	-	-
Total Other Financing Sources (Uses)	48,141	(5,604)	(28,258)	34,193	(1,276)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses	(7,231)	7,814	(2,330)	14,562	5,793
FUND BALANCES - JULY 1 - as Previously Reported	41,637	280,934	64,643	7,665	121,234
Prior Period Adjustments (Note 3)	2,096	8,247	51	-	-
FUND BALANCES - July 1 - As Restated	43,733	289,181	64,694	7,665	121,234
Increase (Decrease) in Inventories	(247)	(856)	-	-	-
Residual Equity Transfers (Note 13)	5,494	(4,816)	4,476	-	-
FUND BALANCES - JUNE 30	$ 41,749	$ 291,323	$ 66,840	$ 22,227	$ 127,027

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and
Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance
General and Special Revenue Fund Types
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES:						
Licenses/Permits	$ 30,343	$ 33,312	$ 2,969	$ 81,522	$ 79,448	$ (2,074)
Taxes:						
Natural Resource	25,396	26,685	1,289	8,928	8,205	(723)
Individual Income	368,953	371,254	2,301	13	8	(5)
Corporate Income	65,889	64,079	(1,810)	-	-	-
Property	207,900	208,407	507	6,696	7,964	1,268
Fuel	-	-	-	178,864	174,934	(3,930)
Payroll	-	-	-	483	483	-
Other	67,044	69,628	2,584	49,400	49,811	411
Charges for Services/Fines/Forfeits	23,676	24,669	993	65,826	67,409	1,583
Investment Earnings	15,268	14,532	(736)	7,304	8,959	1,655
Securities Lending Income	7,188	7,188	-	900	900	-
Sale of Documents/Merchandise/Property	225	294	69	3,381	3,437	56
Rentals/Leases/Royalties	74	106	32	122	106	(16)
Contributions/Premiums	-	-	-	4,644	4,211	(433)
Grants/Contracts/Donations	-	-	-	10,271	7,759	(2,512)
Federal	23,584	18,797	(4,787)	992,852	834,111	(158,741)
Federal Indirect Cost Recoveries	53	122	69	1,846	1,815	(31)
Other Revenues	123	157	34	1,074	813	(261)
Total Revenues	835,716	839,230	3,514	1,414,126	1,250,373	(163,753)
EXPENDITURES:						
Current:						
General Government	77,857	66,384	11,473	45,440	10,978	34,462
Public Safety/Corrections	82,880	82,157	723	75,738	47,124	28,614
Transportation	378	319	59	424,163	322,549	101,614
Health/Social Services	233,185	221,566	11,619	567,917	497,605	70,312
Education/Cultural	489,381	481,224	8,157	85,930	74,285	11,645
Resource Development/Recreation	19,850	19,769	81	124,488	74,070	50,418
Economic Development/Assistance	3,296	3,225	71	126,237	103,724	22,513
Debt Service:						
Principal Retirement	520	520	-	904	904	-
Interest/Fiscal Charges	1,912	1,912	-	538	538	-
Capital Outlay	3,637	3,637	-	36,790	36,790	-
Securities Lending	6,788	6,788	-	856	856	-
Total Expenditures	919,684	887,501	32,183	1,489,001	1,169,423	319,578
Excess of Rev. Over (Under) Expend.	(83,968)	(48,271)	35,697	(74,875)	80,950	155,825
OTHER FINANCING SOURCES (USES):						
Loan Proceeds	-	-	-	13,552	5,129	(8,423)
Bond Proceeds	-	296	296	10,865	9,698	(1,167)
General Fixed Asset Sale Proceeds	100	156	56	25	82	57
Operating Transfers In	159,702	152,811	(6,891)	29,206	23,576	(5,630)
Operating Transfers Out	(6,493)	(5,092)	1,401	(12,479)	(11,189)	1,290
Transfers to Component Units	(100,784)	(100,784)	-	(13,849)	(13,849)	-
Total Other Financing Sources (Uses)	52,525	47,387	(5,138)	27,320	13,447	(13,873)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (Budgetary Basis)	(31,443)	(884)	30,559	(47,555)	94,397	141,952
RECONCILIATION OF BUDGETARY/GAAP REPORTING:						
1. Adjust expenditures for encumbrances	-	335	335	-	7,072	7,072
2. Adjustments for appropriated loans/other nonbudgeted activity	-	1,319	1,319	-	(82,215)	(82,215)
3. Intrafund elimination - Transfers In	-	(107)	(107)	-	(2,576)	(2,576)
4. Intrafund elimination - Transfers Out	-	107	107	-	2,576	2,576
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (GAAP Basis)	(31,443)	770	32,213	(47,555)	19,254	66,809
UNRESERVED FUND BALANCES - JULY 1	30,145	30,145	-	172,800	170,564	(2,236)
Residual Equity Transfers (Note 13)	5,494	5,494	-	(2,371)	(4,816)	(2,445)
Prior Period Adjustments (Note 3)	-	2,096	2,096	-	8,247	8,247
Decrease (Increase):						
Encumbrances Reserve	-	(3,390)	(3,390)	-	(5,443)	(5,443)
Advances to Other Funds Reserve	-	(4,800)	(4,800)	-	(40)	(40)
Long-Term Loans Reserve	-	-	-	-	(10,465)	(10,465)
Trusts/Endowments Reserve (Note 15)	-	-	-	-	(577)	(577)
UNRESERVED FUND BALANCES - JUNE 30	$ 4,196	$ 30,315	$ 26,119	$ 122,874	$ 176,724	$ 53,850

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances
All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
OPERATING REVENUES:				
Charges for Services	$ 73,525	$ 64,881	$ 7,321	$ 503
Investment Earnings	1,506	3,016	77,450	44,736
Securities Lending Income	215	1,303	10,113	7,639
Financing Income	2,364	-	-	29,521
Contributions/Premiums	4,822	70,019	-	87,834
Grants/Contracts/Donations	21	-	-	-
Taxes	10,130	-	21,253	49,208
Rentals/Leases/Royalties	-	-	26,821	-
Other Operating Revenues	6,206	539	46	381
Total Operating Revenues	98,789	139,758	143,004	219,822
Intrafund Revenues	-	(240)	-	-
Net Operating Revenues	98,789	139,518	143,004	219,822
OPERATING EXPENSES:				
Personal Services	6,755	21,788	-	8,342
Contractual Services	5,638	10,902	-	4,504
Supplies/Materials	30,716	14,576	-	233
Benefits/Claims (Note 3)	5,128	66,957	-	52,195
Depreciation	596	10,584	-	578
Amortization	7	23	-	81
Utilities/Rent	419	5,052	-	171
Communications	1,069	10,488	-	527
Travel	166	289	-	158
Repair/Maintenance	360	5,181	-	328
Local Assistance	1,343	-	-	-
Grants	-	-	13	-
Lottery Prize Payments	14,333	-	-	-
Interest Expense	2,234	345	-	35,108
Securities Lending Expense	204	1,235	9,714	7,231
Arbitrage Rebate Tax	244	-	-	64
Other Operating Expenses	4,543	1,876	5	2,004
Total Operating Expenses	73,755	149,296	9,732	111,524
Intrafund Expenses	-	(240)	-	-
Net Operating Expenses	73,755	149,056	9,732	111,524
Operating Income (Loss)	25,034	(9,538)	133,272	108,298
NONOPERATING REVENUES (EXPENSES):				
Gain (Loss) Sale of Fixed Assets	(111)	162	-	3
Increase (Decrease) Value of Livestock	521	-	-	-
Federal Indirect Cost Recoveries	-	2,317	-	-
Total Nonoperating Revenues (Expenses)	410	2,479	-	3
Income (Loss) Before Operating Transfers	25,444	(7,059)	133,272	108,301
Operating Transfers In (Note 13)	85	1,129	1,268	-
Operating Transfers Out (Note 13)	(21,815)	(113)	(95,867)	-
Operating Transfers to Component Units (Note 13)	-	-	(1,740)	-
Net Income Before Extraordinary Items	3,714	(6,043)	36,933	108,301
Loss on Debt Extinguishment (Note 12)	-	-	-	(3,535)
Net Income (Loss)	3,714	(6,043)	36,933	104,766
RETAINED EARNINGS/FUND BALANCES - July 1 As Previously Reported	24,209	80,989	1,049,706	(49,569)
Prior Period Adjustments (Note 3)	71	132	(1)	-
RETAINED EARNINGS/FUND BALANCES - July 1 As Restated	24,280	81,121	1,049,705	(49,569)
Residual Equity Transfers (Note 13)	(500)	-	(3,362)	(79,091)
RETAINED EARNINGS/FUND BALANCES - JUNE 30	$ 27,494	$ 75,078	$ 1,083,276	$ (23,894)

The notes to the financial statements are an integral part of this statement.

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STATE OF MONTANA
Combined Statement of Cash Flows
All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Sales and Services	$ 83,897	$ 136,206	$ 7,590	$ 86,794
Collections of Principal and Interest on Loans	-	-	-	72,841
Cash Payments for Loans	-	-	-	(101,672)
Payments to Suppliers for Goods and Services	(42,826)	(48,546)	-	(8,034)
Payments to Employees	(6,577)	(21,459)	-	(8,201)
Grant Receipts	-	2,405	-	-
Grant Payments	-	-	(13)	-
Cash Payments for Claims	(5,078)	(68,355)	-	(74,677)
Cash Payments for Local Assistance	(1,454)	-	-	-
Collections of Notes Receivable	-	-	-	29
Collections of Payroll Taxes	-	-	-	49,229
Cash Payments for Prizes	(14,228)	-	-	-
Transfers from Other Funds	-	420	-	-
Scholarship/Fellowship Payments	-	-	(6)	-
Other Operating Revenues	5,838	282	56	381
Net Cash Provided by (Used for) Operating Activities	19,572	953	7,627	16,690
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Payment of Principal and Interest on Bonds and Notes	(5,330)	-	-	(244,462)
Proceeds from Issuance of Bonds and Notes	10,825	2,292	-	158,047
Payment of Bond Issuance Costs	(207)	-	-	(1,760)
Collection of Taxes	10,130	-	20,891	-
Transfers to Other Funds	(24,705)	(114)	(100,220)	-
Transfers to Component Units	-	-	(1,740)	-
Transfers from Other Funds	172	1,096	1,268	-
Proceeds from Interfund Loans	-	195	14,589	-
Payment of Interfund Loans	(35)	(665)	(14,038)	-
Residual Equity Transfers to Other Funds	(500)	(77)	(3,913)	(90,690)
Residual Equity Transfers from Other Funds	-	-	551	11,600
Contributed Capital Transfers to Other Funds	-	(2,292)	-	(11,577)
Contributed Capital Transfers from Other Funds	21	960	-	90,668
Net Cash Provided by (Used for) Noncapital Financing Activities	(9,629)	1,395	(82,612)	(88,174)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Fixed Assets	(570)	(10,310)	(2)	(3,632)
Proceeds from Sale of Fixed Assets	35	1,054	-	15
Principal and Interest Payments on Bonds and Notes	(12)	(1,465)	-	-
Net Cash Used for Capital and Related Financing Activities	(547)	(10,721)	(2)	(3,617)
CASH FLOW FROM INVESTING ACTIVITIES:				
Purchase of Investments	(14,852)	(14,312)	(43,751)	(769,614)
Proceeds from Sales or Maturities of Investments	8,552	13,592	18,421	801,581
Proceeds from Securities Lending Transactions	190	1,208	10,089	7,175
Interest and Dividends on Investments	1,276	3,131	74,466	45,776
Payment of Securities Lending Costs	(180)	(1,140)	(9,691)	(6,768)
Collections of Principal and Interest on Loans	6,627	-	-	88
Cash Payments for Loans	(12,586)	-	-	-
Arbitrage Rebate Tax	(85)	-	-	-
Collection of Rents/Leases/Royalties	-	-	27,552	-
Net Cash Provided by (Used for) Investing Activities	(11,058)	2,479	77,086	78,238
Net Increase (Decrease) in Cash and Cash Equivalents	(1,662)	(5,894)	2,099	3,137
Cash and Cash Equivalents, July 1	18,991	23,885	51,857	49,966
CASH AND CASH EQUIVALENTS, JUNE 30	$ 17,329	$ 17,991	$ 53,956	$ 53,103

The notes to the financial statements are an integral part of this statement.

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating Income (Loss)	$ 25,034	$ (9,538)	$ 133,272	$ 108,298
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Depreciation	596	10,584	-	578
Amortization	7	23	-	81
Taxes	(10,130)	-	(21,253)	-
Interest Expense	2,234	345	-	35,108
Securities Lending Expense	204	1,235	9,714	7,231
Interest on Investments	(1,506)	(3,016)	(77,450)	(44,736)
Securities Lending Income	(215)	(1,303)	(10,113)	(7,639)
Federal Indirect Cost Recoveries	-	2,317	-	-
Arbitrage Rebate Tax	244	-	-	64
Operating Transfers in	-	96	-	-
Rentals/Leases/Royalties	-	-	(26,811)	-
Change in Assets and Liabilities:				
Decr (Incr) in Accounts Receivable	3,121	(127)	-	(524)
Decr (Incr) in Due From Other Governments	-	(7)	-	-
Decr (Incr) in Due From Other Funds	(232)	(5)	264	(77)
Decr (Incr) in Due From Primary Government	-	-	-	139
Decr (Incr) in Due From Component Units	116	(229)	-	-
Decr (Incr) in Inventories	(703)	41	-	9
Decr (Incr) in Long-term Loans/Notes Receivable	-	1,272	-	(58,116)
Incr (Decr) in Deferred Charges	-	-	-	30
Decr (Incr) in Other Assets	4,279	129	-	(51)
Incr (Decr) in Accounts Payable	759	(405)	(1)	490
Incr (Decr) in Lottery Prizes Payable	192	-	-	-
Incr (Decr) in Due to Other Funds	(49)	113	5	65
Incr (Decr) in Due to Other Governments	13	-	-	-
Incr (Decr) in Due to Primary Government	-	-	-	(287)
Incr (Decr) in Due to Component Units	(7)	25	-	-
Incr (Decr) in Deferred Revenue	(153)	673	-	(1,216)
Incr (Decr) in Property Held in Trust	(4,324)	(126)	-	(331)
Incr (Decr) in Compensated Absences Payable	73	214	-	68
Incr (Decr) in Estimated Insurance Claims	19	(1,358)	-	(22,494)
Net Cash Provided by (Used For) Operating Activities	$ 19,572	$ 953	$ 7,627	$ 16,690
SCHEDULE OF NONCASH TRANSACTIONS:				
Fixed Asset Acquisitions from Capital Leases	$ -	$ 1,536	$ -	$ -
Asset Acquisitions from Contributed Capital Transfers from Other Funds	2,244	940	-	-
Asset Disposals from Contributed Capital	-	(70)	-	-
Total Noncash Transactions	$ 2,244	$ 2,406	$ -	$ -

RECONCILIATION FOR NONEXPENDABLE TRUST:	
Cash and Cash Equivalents, June 30	$ 53,956
Cash and Cash Equivalents, Expendable Trust, Pension Trust and Agency	770,999
Cash and Cash Equivalents per Combined Balance Sheet, Trust and Agency	$ 824,955

STATE OF MONTANA
Combining Balance Sheet
Component Units - Proprietary Fund Types
June 30, 1997
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
ASSETS:					
Cash/Cash Equivalents	$ 3,166	$ 460	$ 28,189	$ 21,288	$ 53,103
Receivables (Net)	5,094	112	19,728	3,322	28,256
Due from Primary Government (Note 13)	1	-	13	171	185
Due from Other Funds (Note 13)	-	-	1,845	39	1,884
Inventories	-	-	49	-	49
Long-Term Loans/Notes Receivable	413,241	118	-	-	413,359
Investments (Note 4)	184,101	697	435,397	-	620,195
Securities Lending Collateral (Note 4)	41	418	100,496	560	101,515
Equipment	273	16	3,864	-	4,153
Accumulated Depreciation	(176)	(8)	(2,053)	-	(2,237)
Intangible Assets	20	-	6,400	-	6,420
Deferred Charges	5,977	-	-	-	5,977
Other Assets	38	-	500	-	538
TOTAL ASSETS	$ 611,776	$ 1,813	$ 594,428	$ 25,380	$ 1,233,397
LIABILITIES/FUND EQUITY:					
Liabilities:					
Accounts Payable	$ 5,824	$ 3	$ 943	$ 15	$ 6,785
Due to Primary Government (Note 13)	41	8	620	6	675
Due to Other Funds (Note 13)	-	-	-	1,818	1,818
Deferred Revenue	-	1	16,388	300	16,689
Bonds/Notes Payable (Net) (Note 12)	516,645	-	-	-	516,645
Property Held In Trust	1	-	695	-	696
Securities Lending Liability (Note 4)	41	418	100,496	560	101,515
Compensated Absences Payable	41	23	680	29	773
Estimated Insurance Claims (Note 9)	-	-	315,107	205,678	520,785
Arbitrage Rebate Tax Payable	86	-	-	156	242
Total Liabilities	522,679	453	434,929	208,562	1,166,623
Fund Equity:					
Contributed Capital (Note 17)	-	-	-	90,668	90,668
Retained Earnings:					
Reserved for Debt Service (Note 15)	89,097	-	-	-	89,097
Unreserved	-	1,360	159,499	(273,850)	(112,991)
Total Fund Equity	89,097	1,360	159,499	(183,182)	66,774
TOTAL LIABILITIES/FUND EQUITY	$ 611,776	$ 1,813	$ 594,428	$ 25,380	$ 1,233,397

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Revenues, Expenses and Changes in Retained Earnings
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
OPERATING REVENUES:					
Charges for Services	$ 166	$ 294	$ 43	$ -	$ 503
Investment Earnings	10,058	69	31,874	2,735	44,736
Securities Lending Income	7	42	7,402	188	7,639
Financing Income	29,521	-	-	-	29,521
Contributions/Premiums	-	-	88,227	(393)	87,834
Payroll Taxes	-	-	-	49,208	49,208
Other Operating Revenues	174	-	207	-	381
Total Operating Revenues	39,926	405	127,753	51,738	219,822
OPERATING EXPENSES:					
Personal Services	441	70	6,814	1,017	8,342
Contractual Services	1,920	47	2,302	235	4,504
Supplies/Materials	19	2	184	28	233
Benefits/Claims (Note 3)	-	-	79,006	(26,811)	52,195
Depreciation	25	1	552	-	578
Amortization	5	-	76	-	81
Utilities/Rent	35	-	118	18	171
Communications	29	3	442	53	527
Travel	39	23	87	9	158
Repair/Maintenance	41	-	250	37	328
Interest Expense	32,766	-	-	2,342	35,108
Securities Lending Expense	6	32	7,023	170	7,231
Arbitrage Rebate Tax	48	-	-	16	64
Other Operating Expenses	42	14	548	1,400	2,004
Total Operating Expenses	35,416	192	97,402	(21,486)	111,524
Operating Income (Loss)	4,510	213	30,351	73,224	108,298
NONOPERATING REVENUES (EXPENSES):					
Gain (Loss) Sale of Fixed Assets	-	(1)	4	-	3
Total Nonoperating Revenues (Expenses)	-	(1)	4	-	3
Income (Loss) Before Extraordinary Items	4,510	212	30,355	73,224	108,301
Loss on Debt Extinguishment (Note 12)	-	-	-	(3,535)	(3,535)
Net Income (Loss)	4,510	212	30,355	69,689	104,766
RETAINED EARNINGS - JULY 1 -	84,587	1,148	219,834	(355,138)	(49,569)
Residual Equity Transfers	-	-	(90,690)	11,599	(79,091)
RETAINED EARNINGS - JUNE 30	$ 89,097	$ 1,360	$ 159,499	$ (273,850)	$ (23,894)

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Cash Flows
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Sales and Services	$ 83	$ 292	$ 86,807	$ (388)	$ 86,794
Collections of Principal and Interest on Loans	72,841	-	-	-	72,841
Cash Payments for Loans	(101,672)	-	-	-	(101,672)
Payments to Suppliers for Goods and Services	(2,125)	(98)	(4,128)	(1,683)	(8,034)
Payments to Employees	(409)	(63)	(6,676)	(1,053)	(8,201)
Cash Payments for Claims	-	-	(58,345)	(16,332)	(74,677)
Collection of Notes Receivable	-	-	-	29	29
Collection of Payroll Taxes	-	-	-	49,229	49,229
Other Operating Revenues	174	-	207	-	381
Net Cash Provided by (Used for) Operating Activities	(31,108)	131	17,865	29,802	16,690
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Payment of Principal and Interest on Bonds and Notes	(111,918)	-	-	(132,544)	(244,462)
Proceeds from Issuance of Bonds and Notes	158,047	-	-	-	158,047
Payment of Bond Issuance Costs	(1,760)	-	-	-	(1,760)
Residual Equity Transfers to Other Funds	-	-	(90,690)	-	(90,690)
Residual Equity Transfers from Other Funds	-	-	-	11,600	11,600
Contributed Capital Transfers to Other Funds	-	-	(11,577)	-	(11,577)
Contributed Capital Transfers from Other Funds	-	-	-	90,668	90,668
Net Cash Provided by (Used for) Noncapital Financing Activities	44,369	-	(102,267)	(30,276)	(88,174)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of Fixed Assets	(34)	-	(3,598)	-	(3,632)
Proceeds from Sale of Fixed Assets	-	-	15	-	15
Net Cash Used for Capital and Related Financing Activities	(34)	-	(3,583)	-	(3,617)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(583,379)	(696)	(185,539)	-	(769,614)
Proceeds from Sales or Maturities of Investments	559,172	603	230,706	11,100	801,581
Proceeds from Securities Lending Transactions	6	39	6,942	188	7,175
Interest and Dividends on Investments	9,631	85	33,150	2,910	45,776
Payment of Securities Lending Costs	(6)	(29)	(6,562)	(171)	(6,768)
Collections of Principal and Interest on Loans	-	88	-	-	88
Net Cash Provided by (Used for) Investing Activities	(14,576)	90	78,697	14,027	78,238
Net Increase (Decrease) in Cash and Cash Equivalents	(1,349)	221	(9,288)	13,553	3,137
Cash and Cash Equivalents, July 1	4,515	239	37,477	7,735	49,966
Cash and Cash Equivalents, June 30	$ 3,166	$ 460	$ 28,189	$ 21,288	$ 53,103

The notes to the financial statements are an integral part of this statement.

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)	$ 4,510	$ 213	$ 30,351	$ 73,224	$ 108,298
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	25	1	552	-	578
Amortization	5	-	76	-	81
Interest Expense	32,766	-	-	2,342	35,108
Securities Lending Expense	6	32	7,023	170	7,231
Interest on Investments	(10,058)	(69)	(31,874)	(2,735)	(44,736)
Securities Lending Income	(7)	(42)	(7,402)	(188)	(7,639)
Arbitrage Rebate Tax	48	-	-	16	64
Change in Assets and Liabilities:					
Decr (Incr) in Accounts Receivable	1	(8)	(350)	(167)	(524)
Decr (Incr) in Due From Other Funds	-	-	(75)	(2)	(77)
Decr (Incr) in Due From Primary Government	-	-	23	116	139
Decr (Incr) in Inventories	-	-	9	-	9
Decr (Incr) in Long-Term Loans/Notes Receivable	(58,116)	-	-	-	(58,116)
Incr (Decr) in Deferred Charges	30	-	-	-	30
Decr (Incr) in Other Assets	(361)	-	310	-	(51)
Incr (Decr) in Accounts Payable	32	4	440	14	490
Incr (Decr) in Due to Other Funds	(2)	-	(7)	74	65
Incr (Decr) in Due to Primary Government	6	(4)	(293)	4	(287)
Incr (Decr) in Deferred Revenue	-	-	(1,287)	71	(1,216)
Incr (Decr) in Property Held in Trust	2	-	(333)	-	(331)
Incr (Decr) in Compensated Absences Payable	5	4	72	(13)	68
Incr (Decr) in Estimated Insurance Claims	-	-	20,630	(43,124)	(22,494)
Net Cash Provided by (Used for) Operating Activities	$ (31,108)	$ 131	$ 17,865	$ 29,802	$ 16,690

STATE OF MONTANA
Statement of Plan Net Assets
Component Unit - Pension Trust Fund
June 30, 1997
(Expressed in Thousands)

		TRS
ASSETS:		
Cash/Cash Equivalents (Note 4)	$	51,661
Receivables (Net):		
Employer Contributions		4,410
Employee Contributions		4,132
Interest		8,638
Other Receivables		9
Due from Other Funds (Note 13)		850
Investments, at Fair Value:		
Equity in Pooled Investments (Note 4)		1,547,023
Other Investments (Note 4)		125,159
Securities Lending Collateral (Note 4)		193,936
Land		35
Buildings/Improvements		158
Equipment		231
Accumulated Depreciation		(242)
Intangible Assets		80
TOTAL ASSETS	$	1,936,080
LIABILITIES/FUND BALANCES:		
Accounts Payable	$	176
Interfund Loans Payable		6,500
Due to Primary Government (Note 13)		40
Due to Other Governments		3
Lease/Installment Purch. Payable (Note 11)		10
Property Held in Trust		10
Securities Lending Liability (Note 4)		193,936
Compensated Absences Payable (Note 1)		35
Total Liabilities		200,710
Fund Balances Reserved for Employees' Pension Benefits		1,735,370
Total Fund Balance		1,735,370
TOTAL LIABILITIES/FUND BALANCES	$	1,936,080

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Changes in Plan Net Assets
Pension Trust Funds and Discretely Presented Component Unit
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	PERS	MUNICIPAL POLICE	FIRE-FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES	GAME WARDENS	VOLUNTEER FIRE-FIGHTERS	TOTAL PRIMARY GOVT	COMP UNIT TRS
ADDITIONS:										
Charges for Services	$ 2	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2	$ -
Contributions/Premiums:										
Employer	45,303	2,421	2,077	1,683	1,641	177	250	-	53,552	41,640
Employee	52,634	1,693	1,146	1,800	586	207	244	-	58,310	40,348
Other Contributions	123	6,879	4,774	27	932	951	-	911	14,597	101
Net Investment Earnings:										
Investment Earnings	342,591	13,808	12,962	13,860	9,457	5,011	3,655	1,562	402,906	283,850
Administrative Investment Expense	(1,397)	(43)	(36)	(43)	(31)	(19)	(11)	(9)	(1,589)	(1,149)
Securities Lending Income	14,566	666	630	671	460	243	177	107	17,520	12,108
Securities Lending Expense	(13,773)	(631)	(597)	(635)	(435)	(229)	(168)	(102)	(16,570)	(11,448)
Other Additions	103	-	-	-	-	-	-	-	103	16
Intrafund Revenues	(103)	-	-	-	-	-	-	-	(103)	-
Total Additions	440,049	24,793	20,956	17,363	12,610	6,341	4,147	2,469	528,728	365,466
DEDUCTIONS:										
Benefits	82,291	7,211	5,955	1,502	3,580	1,203	1,099	756	103,597	88,631
Refunds	10,450	228	22	345	99	-	-	-	11,144	3,840
Administrative Expenses:										
Personal Services	581	-	-	-	-	-	-	-	581	348
Contractual Services	291	-	-	-	-	-	-	-	291	128
Supplies/Materials	13	-	-	-	-	-	-	-	13	16
Depreciation	25	-	-	-	-	-	-	-	25	27
Amortization	2	-	-	-	-	-	-	-	2	55
Utilities/Rent	101	-	-	-	-	-	-	-	101	24
Communications	59	-	-	-	-	-	-	-	59	34
Travel	20	-	-	-	-	-	-	-	20	12
Repair/Maintenance	3	-	-	-	-	-	-	-	3	19
Interest Expense	-	-	-	-	-	-	-	-	-	2
Other Operating Expenses	29	28	22	20	12	350	4	19	484	10
Local Assistance	-	-	-	-	-	-	-	12	12	-
Intrafund Expenses	(103)	-	-	-	-	-	-	-	(103)	-
Total Deductions	93,762	7,467	5,999	1,867	3,691	1,553	1,103	787	116,229	93,146
Net Increase (Decrease)	346,287	17,326	14,957	15,496	8,919	4,788	3,044	1,682	412,499	272,320
FUND BALANCES - JULY 1 - As Previously Reported	1,749,676	74,060	71,384	72,746	50,209	26,571	19,366	11,504	2,075,516	1,463,050
Prior Period Adjustments	-	-	-	-	-	-	-	-	-	-
FUND BALANCES - JULY 1 - As Restated	1,749,676	74,060	71,384	72,746	50,209	26,571	19,366	11,504	2,075,516	1,463,050
FUND BALANCES - JUNE 30	$ 2,095,963	$ 91,386	$ 86,341	$ 88,242	$ 59,128	$ 31,359	$ 22,410	$ 13,186	$ 2,488,015	$ 1,735,370

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Balance Sheet
Component Units - All Higher Education Funds
June 30, 1997
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
ASSETS:				
Cash/Cash Equivalents	$ 11,651	$ 16,460	$ 11,811	$ 4,052
Receivables (Net)	3,462	490	735	11,353
Interfund Loans Receivable (Note 13)	800	3,265	-	-
Due from Other Governments	2	2	-	3,876
Due from Primary Government (Note 13)	12	123	37	872
Due from Other Funds (Note 13)	5,061	6,342	636	307
Inventories	91	1,701	2,305	-
Equity in Pooled Investments (Note 4)	-	-	-	-
Long-Term Notes/Loans Receivable	-	-	-	-
Advances to Other Funds	-	10	9	-
Investments (Note 4)	-	-	-	25
Securities Lending Collateral (Note 4)	-	26	118	36
Land	-	-	-	-
Buildings/Improvements	-	-	-	-
Equipment	-	-	-	-
Other Fixed Assets	-	-	-	-
Construction in Progress	-	-	-	-
Intangible Assets	-	-	-	-
Deferred Charges	-	-	-	-
Other Assets	2,698	1,838	810	156
TOTAL ASSETS	$ 23,777	$ 30,257	$ 16,461	$ 20,677
LIABILITIES/FUND BALANCES:				
Liabilities:				
Accounts Payable	$ 10,394	$ 4,482	$ 1,888	$ 3,805
Interfund Loans Payable (Note 13)	-	-	-	3,800
Advances from Other Funds	-	29	225	9
Due to Other Governments	110	13	-	13
Due to Primary Government (Note 13)	450	1,330	19	33
Due to Other Funds (Note 13)	5,973	2,458	1,236	5,483
Deferred Revenue	6,133	824	753	3,886
Lease/Installment Purchase Payable (Note 11)	-	-	-	-
Bonds/Notes Payable (Note 12)	66	8	9	-
Property Held in Trust	231	52	393	-
Securities Lending Liability (Note 4)	-	26	118	36
Compensated Absences Payable (Note 1)	22,655	4,848	1,801	148
Total Liabilities	46,012	14,070	6,442	17,213
Fund Balances:				
Net Investment in Plant	-	-	-	-
Reserved For:				
Encumbrances	592	82	1	15
Student Loans/Endowments	-	-	-	-
Construction	-	-	-	-
Unreserved	(22,827)	16,105	10,018	3,449
Total Fund Balances	(22,235)	16,187	10,019	3,464
TOTAL LIABILITIES/FUND BALANCES	$ 23,777	$ 30,257	$ 16,461	$ 20,677

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS			PLANT FUNDS				
STUDENT LOANS	ENDOWMENTS	AGENCY	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	TOTALS
$ 2,126	$ 2,409	$ 3,874	$ 80,789	$ 17,048	$ 2,807	$ -	$ 153,027
26,147	11	103	370	108	77	-	42,856
-	-	-	-	-	-	-	4,065
-	-	-	34	-	-	-	3,914
4	-	39	110	4	133	-	1,334
38	17	4,277	930	568	974	-	19,150
-	-	-	-	-	-	-	4,097
-	2,489	41	-	-	-	-	2,530
215	-	-	19	-	-	-	234
-	-	-	-	253	405	-	677
-	762	-	-	2,922	-	-	3,709
28	334	558	26	171	34	-	1,331
-	-	-	-	-	-	13,310	13,310
-	-	-	-	-	-	351,141	351,141
-	-	-	-	-	-	140,438	140,438
-	-	-	-	-	-	79,068	79,068
-	-	-	50,559	2,828	-	42,911	96,298
-	-	-	-	-	-	3,301	3,301
-	-	-	-	-	2,225	-	2,225
-	-	251	43	3	-	-	5,799
$ 28,558	$ 6,022	$ 9,143	$ 132,880	$ 23,905	$ 6,655	$ 630,169	$ 928,504
$ 1	$ -	$ 616	$ 1,174	$ 436	$ 1,632	$ -	$ 24,428
-	-	-	265	-	-	-	4,065
-	-	-	75	205	-	135	678
-	-	202	-	-	-	-	338
-	-	306	6	4	-	-	2,148
169	38	1,817	395	481	293	-	18,343
-	-	-	78	107	61	-	11,842
-	-	-	-	-	-	1,590	1,590
-	-	-	102,814	5,535	2,505	90,627	201,564
-	-	5,644	-	-	-	-	6,320
28	334	558	26	171	34	-	1,331
-	-	-	-	-	-	-	29,452
198	372	9,143	104,833	6,939	4,525	92,352	302,099
-	-	-	-	-	-	537,817	537,817
-	-	-	-	-	-	-	690
26,034	4,645	-	-	-	-	-	30,679
-	-	-	13,118	1,518	-	-	14,636
2,326	1,005	-	14,929	15,448	2,130	-	42,583
28,360	5,650	-	28,047	16,966	2,130	537,817	626,405
$ 28,558	$ 6,022	$ 9,143	$ 132,880	$ 23,905	$ 6,655	$ 630,169	$ 928,504

STATE OF MONTANA
Statement of Changes in Fund Balance
Component Units - All Higher Education Funds
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES/OTHER ADDITIONS:				
Tuition/Fees	$ 88,912	$ 9,734	$ 9,009	$ -
Federal Grants/Contracts	4,478	31	9	96,432
State Grants/Contracts	-	433	-	8,982
Local Grants/Contracts	-	-	-	2,095
Private Gifts/Grants/Donations	-	835	-	15,793
Endowment Income	-	-	-	173
Sales/Services-Educational Activities	662	2,170	1	116
Sales/Services-Designated/Auxiliary Enterprises	3	21,017	48,849	84
Indirect Costs Recovered	40	9,433	-	-
Investment Earnings	112	133	964	184
Securities Lending Income	-	4	33	6
Acquisition of Long-Lived Assets	-	-	-	-
Retirement of Indebtedness	-	-	-	-
Other Revenues/Additions	355	2,743	715	386
Total Revenues/Other Additions	94,562	46,533	59,580	124,251
Intrafund Revenues/Other Additions	-	-	-	(2,270)
Net Revenues/Other Additions	94,562	46,533	59,580	121,981
EXPENDITURES/OTHER DEDUCTIONS:				
Instruction	104,234	5,294	-	4,918
Research	11,889	7,408	-	38,965
Public Service	6,610	5,231	-	13,232
Academic Support	18,300	7,721	-	2,111
Student Services	16,172	11,969	-	3,655
Institutional Support	17,593	1,533	-	1,493
Independent Operations	1,915	140	-	-
Scholarships/Fellowships	7,458	380	-	53,430
Auxiliary Enterprises	-	30	49,234	104
Operation/Maintenance of Plant	22,566	732	-	33
Expended for Plant	-	-	-	-
Debt Services	181	226	98	69
Capital Outlay	6,665	3,536	285	5,017
Securities Lending	-	4	31	6
Disposal of Long-Lived Assets	-	-	-	-
Debt Incurred	-	-	-	-
Other Expenditures/Deductions	890	267	68	27
Total Expenditures/Other Deductions	214,473	44,471	49,716	123,060
Intrafund Expenditures/Other Deductions	-	-	-	(2,270)
Net Expenditures/Other Deductions	214,473	44,471	49,716	120,790
TRANSFERS IN (OUT)/OTHER ADDITIONS (DEDUCTIONS):				
Transfers from State General Fund	100,745	-	-	-
Millage Transfers	13,840	-	-	-
Mandatory Transfers	623	(502)	(8,040)	2
Nonmandatory Transfers	(244)	164	(1,161)	10
Transfers from Primary Government	-	-	214	-
Gain on Advance Refunding	-	-	-	-
Total Transfers In (Out) (Note 13)	114,964	(338)	(8,987)	12
Move Equity to Investment in Plant	-	-	-	-
Loan Proceeds	-	-	1	-
Bond Proceeds	-	-	-	-
Total Transfers In (Out)/Other Additions (Deductions)	114,964	(338)	(8,986)	12
Net Increase (Decrease) in Fund Balances	(4,947)	1,724	878	1,203
FUND BALANCES - July 1 - As Previously Reported	(17,289)	14,437	9,089	2,266
Prior Period Adjustments (Note 3)	1	21	-	-
FUND BALANCES - July 1 - As Restated	(17,288)	14,458	9,089	2,266
Residual Equity Transfers (Note 13)	-	5	52	(5)
FUND BALANCES - June 30	$ (22,235)	$ 16,187	$ 10,019	$ 3,464

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS		PLANT FUNDS			
STUDENT LOANS	ENDOWMENTS	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
$ 1	$ -	$ 2,117	$ 1,211	$ 3,076	$ -
523	-	164	-	23	-
90	-	-	-	-	-
-	-	-	-	-	-
43	4	1,936	42	-	-
-	56	-	-	-	-
-	-	-	-	-	-
2	-	49	165	100	-
-	-	-	-	-	-
363	8	4,096	659	979	-
4	-	5	11	27	-
-	-	-	-	-	105,282
-	-	-	-	-	31,765
413	-	2,455	1,172	487	-
1,439	66	10,624	3,260	4,692	137,047
-	-	-	-	-	-
1,439	68	10,624	3,260	4,692	137,047
-	-	48	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	1	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	3,534	4,544	25	-
-	-	534	150	43,272	-
-	-	2,577	3,523	-	-
4	-	5	11	27	-
-	-	-	-	-	19,104
-	-	-	-	-	50,981
426	-	-	-	-	-
434	1	6,698	8,228	43,324	70,085
-	-	-	-	-	-
434	1	6,698	8,228	43,324	70,085
-	-	21	18	-	-
-	-	-	-	-	-
-	-	(2,735)	47	11,512	-
(11)	188	677	5,999	(5,094)	-
-	-	702	9	824	-
-	-	-	-	19	-
(11)	186	(1,335)	6,073	7,261	-
-	-	(2,458)	(1,155)	751	(3,582)
-	-	311	-	-	-
-	-	-	-	28,948	-
(11)	188	(3,482)	4,918	36,960	(3,582)
994	255	644	(50)	(1,672)	63,380
27,366	5,395	25,721	16,830	3,639	474,437
-	-	1,701	186	(4)	-
27,366	5,395	27,422	17,016	3,835	474,437
-	-	(19)	-	(33)	-
$ 28,360	$ 5,650	$ 26,047	$ 16,966	$ 2,130	$ 537,817

STATE OF MONTANA
Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes
Component Units - Higher Education Fund Type
For the Fiscal Year Ended June 30, 1997
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES:				
Tuition/Fees	$ 88,912	$ 9,734	$ 9,009	$ -
Federal Grants/Contracts	4,478	31	9	96,432
State Grants/Contracts	-	433	-	8,982
Local Grants/Contracts	-	-	-	2,095
Private Gifts/Grants/Donations	-	835	-	15,793
Endowment Income	-	-	-	173
Sales/Services-Educational Activities	662	2,170	1	116
Sales/Services-Designated/Auxiliary Enterprises	3	21,017	48,849	84
Indirect Costs Recovered	40	9,433	-	-
Investment Earnings	112	133	964	184
Securities Lending Income	-	4	33	6
Other Revenues	355	2,743	715	386
Total Revenues	94,562	46,533	59,580	124,251
Intrafund Revenues	-	-	-	(2,270)
Net Revenues	94,562	46,533	59,580	121,981
EXPENDITURES:				
Educational and General:				
Instruction	104,234	5,294	-	4,918
Research	11,889	7,408	-	38,965
Public Service	6,610	5,231	-	13,232
Academic Support	18,300	7,721	-	2,111
Student Services	16,172	11,969	-	3,655
Institutional Support	17,593	1,533	-	1,493
Scholarships/Fellowships	7,458	380	-	53,430
Operation/Maintenance of Plant	22,566	732	-	33
Other Expenditures	890	267	68	27
Total Educational and General Expenditures	205,712	40,535	68	117,864
Intrafund Expenditures	-	-	-	(2,270)
Net Educational and General Expenditures	205,712	40,535	68	115,594
Auxiliary Enterprises	-	30	49,234	104
Independent Operations	1,915	140	-	-
Debt Services	181	226	98	69
Capital Outlay	6,665	3,536	285	5,017
Securities Lending	-	4	31	6
Total Expenditures	214,473	44,471	49,716	120,790
TRANSFERS IN (OUT):				
Transfers from State General Fund	100,745	-	-	-
Millage Transfers	13,840	-	-	-
Mandatory Transfers	623	(502)	(8,040)	2
Nonmandatory Transfers	(244)	164	(1,162)	10
Transfers from Primary Government	-	-	214	-
Total Transfers In (Out) (Note 13)	114,964	(338)	(8,988)	12
Net Increase (Decrease) in Fund Balances	$ (4,947)	$ 1,724	$ 876	$ 1,203

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of the Higher Education Funds have been prepared in conformity with GAAP for colleges and universities as prescribed by the American Institute of Certified Public Accountants.

A. Reporting Entity - For financial reporting purposes, the State of Montana has included all funds and account groups which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete Component Units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The Component Units columns of the combined financial statements include the financial data of these entities:

Housing Authority (Proprietary Fund Type) - This Authority is a quasi-judicial board, consisting of seven members appointed by the Governor, created in 1975 to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $975,000,000. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited annually by the Legislative Auditor. Its report is issued under separate cover and available at 836 Front Street, Helena, MT 59601.

Health Facilities Authority (Proprietary Fund Type) - This Authority is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. Its purpose is to contain future health care costs by offering debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. The Board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited by the Legislative Auditor every two years. Its report is issued under separate cover and available at 555 Fuller Avenue, Helena, MT 59601.

State Compensation Insurance Fund (New and Old) (Proprietary Fund Type) - The Fund is a quasi-governmental corporation governed by a five member board appointed by the Governor. The Fund provides workers' compensation insurance. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990, and is financed by a .5 percent tax on each employer as well as a .2 percent tax on employee wages and distributive income of sole proprietors and subchapter S shareholders. Administrative operations and budgets are reviewed by the Governor and the Legislature. The Fund is audited annually by the Legislative Auditor. Its report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601

Teachers' Retirement System (Pension Trust Fund) - This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers' Retirement Division are paid from interest earnings of the fund. The system is funded from employer and employee contributions and interest earnings. The system is audited annually by the Legislative Auditor. Its report is issued under separate cover and is available at 1500 East 6th Avenue, Helena, MT 59620.

Universities and Colleges (Higher Education Funds) - The State Board of Regents has responsibility for the following institutions: University of Montana-Missoula and the units under it including Montana Tech of the University of Montana, Western Montana College of the University of Montana and the Helena College of Technology; and Montana State University-Bozeman and the units under it including Montana State University-Billings and Montana State University-Northern. All units are funded through State appropriations, tuition, federal grants, and private donations and grants. The units are audited by the Legislative Auditor every two years and their reports are issued under separate cover. The reports are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway, Helena, MT 59601.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation, and (3) private foundations supporting public education, over which the State exercises neither financial nor administrative control (see Note 19).

Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund.

B. Fund Structure - The State uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The financial activities of the State of Montana are classified into fund categories and account groups as described below:

GOVERNMENTAL FUNDS

General Fund - To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds - To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds - To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

PROPRIETARY FUNDS

Enterprise Funds - To account for operations (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; or (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Internal Service Funds - To account for the financing of goods and services provided by one department or agency to other departments, agencies or other governmental entities on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (1) Expendable Trust Funds; (2) Nonexpendable Trust Funds; (3) Pension Trust Funds; and (4) Agency Funds.

ACCOUNT GROUPS

General Fixed Assets Account Group - To account for all fixed assets of the State, except those accounted for in the Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

General Long-Term Obligations Account Group - To account for all long-term obligations of the State, except those accounted for in Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

HIGHER EDUCATION (UNIVERSITY AND COLLEGE) FUNDS

Current Funds

Unrestricted

General Operating - To account for the portion of financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature.

Designated - To account for those resources associated with general operations which are separately classified in order to accumulate costs recharged to other funds and to identify special activities of educational departments which are supported by supplemental assessments and the receipt and disposition of special supply and facility fees which are approved for collection beyond normal course fees.

Auxiliary - To account for those financial resources devoted to providing essential on-campus services primarily to students, faculty or staff where a fee relating to the service is charged.

Restricted - To account for the portion of financial resources that can be expended only for purposes imposed by sources external to the Board of Regents and the legislature.

Fiduciary Funds

Student Loans - To account for monies which may be loaned to students, faculty or staff for purposes related to education, organized research or public services by the higher education units.

Endowments - To account for monies where the principal is available for investment. Investment earnings are to be transferred to (or recorded directly in) appropriate operating funds pursuant to prevailing administrative requirements.

Agency - To account for monies where the State acts in the capacity of a custodian or fiscal agent for individual students, faculty, staff or qualified organizations.

Plant Funds

Unexpended - To account for unexpended resources derived from various sources which are used to finance the acquisition/construction of plant assets and the associated liabilities.

Renewal and Replacement - To account for resources used to provide for the renewal and replacement of plant fund assets as distinguished from additions and improvements.

Retirement of Indebtedness - To account for resources accumulated for interest and principal payments and other debt service charges, including contributions to reserves, relating to plant fund indebtedness.

Investment in Plant - To account for all long-lived assets in the service of the higher education unit as well as all associated liabilities.

C. Basis of Accounting - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed in the Governmental Funds, Expendable Trust Funds and in the Agency Funds for the purpose of asset and liability recognition. Under the modified accrual basis, revenues are susceptible to accrual and recognized when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures incurred. Intergovernmental revenues received but not earned are recorded as deferred revenues. All other revenue including taxes on coal sales, gas and oil production, individual income and other self-assessed taxes is considered available if due within 60 days of fiscal year-end. Based on historical analysis, a liability has been recognized for collected withholding taxes to be refunded in fiscal year 1998. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

(1) principal and interest on long-term debt is recognized when due;
(2) prepayments are accounted for as expenditures in the period of acquisition; and
(3) inventory items are considered expenditures when purchased.

All Proprietary, Pension Trust and Nonexpendable Trust Funds are accounted for on an economic resources measurement focus. This means all assets and liabilities associated with these activities are included on their balance sheets. Operating statements for these funds present increases (revenues) and decreases (expenses) in net total assets.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds are maintained and reported on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. In Higher Education Funds, depreciation expense related to plant fund assets is not recorded; summer session student tuition and fee revenues and expenditures are deferred at June 30 and recorded as revenue and expenditures in the succeeding fiscal year. Unbilled receivables of Proprietary and Higher Education Funds are recognized as revenue.

Significant intrafund transactions and balances have been eliminated.

D. Proprietary Activity Accounting and Financial Reporting - Activities accounted for in the state's proprietary, nonexpendable trust and pension trust funds and proprietary type component units follow GAAP prescribed by the GASB and all Financial Accounting Standards Board's standards issued on or before November 30, 1989. Subsequent to this date, the State accounts for these activities as prescribed by the GASB.

E. Cash/Cash Equivalents - For all funds, except the Housing Authority in the Component Unit Proprietary Funds, cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit (See Note 4).

F. Receivables - This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 1997, is $16.39 million.

G. Inventories - Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental and Expendable Trust Funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute "available spendable resources." An exception is the food stamp inventory balance in the special revenue fund which is offset by deferred revenue per GASB Statement 24.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds report using the "consumption method," meaning inventories are expensed as used.

H. **Investments** - In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Principle", the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. All investments, except the deferred compensation plan investments and pension plan investments are reported at cost or amortized cost in the balance sheet. The deferred compensation plan investments and pension plan investments are carried at market value. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 4 on Cash/Cash Equivalents and Investments).

I. **Deferred Charges** - Unamortized bond issuance costs are reported in this category.

J. **Deferred Revenue** - Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

K. **Long-Term Obligations** - Long-term obligations expected to be financed from governmental funds are accounted for in the general long-term debt account group. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

L. **Capital Leases** - A capital lease is generally defined by Statement of Financial Accounting Standards No. 13 “Accounting for Leases” as one which transfers benefits and risks of ownership to the lessee. Leases meeting the criteria of a capital lease as defined are recorded at inception as expenditures and other financial sources in governmental fund types and as assets and liabilities in the General Fixed Assets and General Long-Term Debt Account Groups, respectively, at the present value of the future minimum lease payments, using the interest rates stated in the leases.

M. **Compensated Absences** - Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. For fiscal year 1997, 959 hours were contributed to the sick leave pool and 1,272 hours were withdrawn leaving a balance of 4,754 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave of Proprietary and Pension Trust Funds is recorded as an expense and liability of those funds; for higher education the expense and liability is recorded in the current unrestricted funds as the benefits accrue to employees. The liability amount recorded in the General Long-Term Obligations Account Group is not expected to be liquidated with expendable financial resources, thus no expenditure or liability is reported in the governmental funds. Upon retirement or termination, an employee is paid for 100 per cent of unused vacation leave and 25 per cent of unused sick leave.

As of June 30, 1997, the State's liability for unused vacation and sick leave for Higher Education Funds was $29,452,000. The leave liabilities for the remaining agencies at June 30, 1997, were $51,793,000, an increase of $3,722,000 over the June 30, 1996, leave liability of $48,071,000. The following table reflects the change (in thousands):

	Balance July 1, 1996	Leave Earned	Leave Used	Balance June 30, 1997
PRIMARY GOVERNMENT				
Governmental Fund Types and Similar Trust Funds	$ 43,942	$ 27,924	$ 24,556	$ 47,310
Proprietary Fund Types and Similar Trust Funds	3,387	2,158	1,870	3,675
Total	$ 47,329	$ 30,082	$ 26,426	$ 50,985
COMPONENT UNITS				
Proprietary Fund Types and Similar Trust Funds	742	589	523	808
Total Non-Higher Education Funds	$ 48,071	$ 30,671	$ 26,949	$ 51,793

N. **Encumbrances** - The State utilizes encumbrance accounting to record purchase orders, contracts and other commitments for the expenditure of monies to assure effective budgetary control and accountability. Encumbrances outstanding at year end represent the estimated amount of expenditures likely to result if orders for goods and services are completed. In governmental funds, encumbrances outstanding at year end are reported as reservations of fund balances since they do not represent expenditures or liabilities.

O. **Advances to Other Funds** - Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the other fund in the balance sheet account "Advance From Other Funds."

P. **Fund Equity** - Contributed capital is recorded in proprietary funds that have received capital from other funds. Reserves represent those portions of fund equity or retained earnings not appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. Undesignated fund balances indicate that portion of fund equity that is available for budgeting in future years subject to working capital requirements.

Q. **Property Taxes** - Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collectible within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded in Receivables (Net of Uncollectibles).

Personal property tax levies are set each August and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due.

Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

R. **Other Taxes** - On the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for All Governmental Fund Types and Expendable Trust Funds, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Exp. Trust Fund
Video Gaming	$11,074	$ 1	$ -	$ -	$22,247
Insurance Premium	22,489	11,007	-	-	-
University System Millage	830	14,719	-	-	-
Cigarette/Tobacco	-	1,752	10,901	2,336	-
Inheritance/Estate	14,562	-	-	-	-
Accommodations	105	9,405	-	-	-
Alcoholic Beverage	2,203	2,412	-	-	1,490
Electrical Energy	3,849	-	-	-	-
Freight Line	6,309	-	-	-	-
Telephone License	6,045	-	-	-	-
Miscellaneous	2,162	10,515	-	-	-
TOTAL OTHER TAXES	$69,628	$49,811	$10,901	$2,336	$23,737

2. BUDGETARY REPORTING

A. **State Budget Process** - Montana prepares two annual budgets biennially in the odd-numbered years when the legislature meets. The constitution requires that legislative appropriations not exceed available revenues. The legislature only utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the General, Special Revenue and Capital Projects Funds, except for those State Special Revenue Funds which receive donations. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the legislative fiscal division. The Governor and budget director establish priorities and balance the budget. The Governor's budget is submitted to the legislative fiscal division which prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill making all appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the legislature may authorize supplemental appropriations. During the 1997 legislative session, the legislature appropriated $14.2 million general fund and $0.93 million in special revenue supplemental appropriations for fiscal year 1997. The Governor, or his designee, may approve budget amendments for non-general fund monies not available for consideration by the legislature and for emergencies. In the accompanying financial statements, reported budget amounts are as amended. Budget amendments authorized for fiscal year 1997 were not material. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Fund balances/retained earnings are not reserved for reverted appropriations. For fiscal year 1997, reverted appropriations for all funds were $357.2 million of which $20.7 million were for the General Fund and $189.8 million were for the Special Revenue Fund. Agencies are able to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Appropriations for Capital Projects Funds are not made on an annual basis, but are adopted on a "project-length" basis. Because these non-operating budgets primarily serve a management control purpose and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided in this CAFR.

B. Budget Basis - The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in Proprietary Funds; compensated absences and inventories purchased in Higher Education Funds; certain loans from Governmental Funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.). The General and Special Revenue Fund Type budgetary statement includes a reconciliation of unreserved fund balance between "Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses" on the budgetary basis and the GAAP basis.

3. OTHER ACCOUNTING ISSUES

A. Accounting and Reporting Changes - The State made changes in its accounting and reporting practices to enhance conformance with GAAP. Except for the changes highlighted below, all changes reported in the accompanying financial statements that resulted in the restatement of beginning fund equity were made to correct errors of prior periods.

The State implemented GASB Statement 28 - Accounting and Financial Reporting for Securities Lending Transactions. The implementation of GASB 28 resulted in the recording of an asset for cash collateral from securities lending transactions and an offsetting liability. Also, the income and related expense resulting from securities lending transactions have been separately displayed rather than included as a component of investment income.

B. Other - The Benefits/Claims expenditure amount of $52.195 million reported in the Component Units column in the combined proprietary fund operating statement consists of the amount of benefits paid and the actuarially determined change in estimated claims liability for the State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). The amounts for each fund are broken down as follows:

	STATE COMPENSATION INSURANCE NEW FUND	OLD FUND
Benefit and Loss Adjustment Exp.	$ 58,376	$ 16,313
Incr (Decr) in Actuarially Estimated Claims	20,630	(43,124)
Total Benefits/Claims	$ 79,006	$(26,811)

4. CASH/CASH EQUIVALENTS AND INVESTMENTS

This footnote details the following balance sheet classifications (in thousands):

Cash/Cash Equivalents	$ 1,429,478
Equity in Pooled Investments	$ 4,966,647
Investments	$ 1,174,749

Carrying amounts and market values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 4. Information in Tables 3 and 4 does not tie directly to the amounts reported in the GPFS since certain funds' investments and equity in pooled investments are reported at market value in the GPFS while other funds' investment amounts are reported at book value.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account there is a short term investment pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short term, highly liquid investments, the individual funds' investment in the STIP are reported as a cash equivalent.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State. **Category 1** consists of deposits that are insured or collateralized with securities held by the state or by its agent in the state's name. **Category 2** consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the state's name. **Category 3** deposits are uncollateralized. The State's Cash Deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments and Table 4 - Investments to disclose the level of risk assumed by the State at fiscal year-end.

Category 1 includes investments that are insured or registered securities held by the State or its agent in the State's name. **Category 2** includes uninsured and unregistered investments in which the securities are held by the counter party's trust department or agent in the State's name. **Category 3** includes uninsured and unregistered investments in which the securities are held by the counter party, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments are classified in Category 3 at fiscal year-end. **Not Categorized** includes investments held by broker-dealers under securities loans with cash collateral.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities in addition to other long term investment securities to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc.. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91 day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. Their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero Coupon Bonds and Preferred Stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons), DECS (Dividend Enhanced Common Stock) and ACES (Automatically Convertible Equity Securities). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS and ACES are issued, and traded, at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated "investment grade" at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

There are no legal risks, as of June 30, 1997, that the State is aware of regarding any investments.

(3) Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% of the market value of the securities on loan and maintain collateral equal to not less than 100% of the market value of the loaned security. During fiscal year 1997, the State's agent loaned, on behalf of the State, certain securities held by the agent, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership for the loaned securities. On June 30, 1997, the State had no credit risk exposure to borrowers.

B. Cash/Cash Equivalents

(1) Cash Deposits - The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, State statutes require collateralization at 50% of the bank balance. The Cash Deposit amounts include both Primary Government and Component Unit deposits.

TABLE 1 - CASH DEPOSITS (In Thousands)

Risk Category		Carrying Amount	Bank Balance	Fund
1	Insured (FDIC)	$ 1,169	$ 1,169	Various
	Collateral held by State/State's agent	12,614	12,614	Various
2		9,746	9,746	Various
3		4,296	4,296	Various
Uncategorized:				
	Undeposited Cash	681		
	Cash in U.S. Treasury	115,837		
	Less: Outstanding Warrants	(39,233)		
TOTAL CASH DEPOSITS		$105,110		

As of June 30, 1997, the carrying amount of deposits for component units was $39,800,359 and the bank balance was $39,559,191. Of the bank balance, $39,511,466 was fully insured or collateralized with securities held by the component units or their agent's in the unit's name and $47,725 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) Cash Equivalents - consists of cash in the State Treasury invested by individual funds in the Short Term Investment Pool (STIP) and the Treasurer's Cash Pool in identifiable securities and investments considered to be cash equivalents. Cash equivalents, except for the Housing Authority in the Component Unit Proprietary Fund, generally are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit. Cash equivalents may be under the control of the Board of Investments (the Board) or other agencies, as allowed by law.

TABLE 2 - CASH EQUIVALENTS (In Thousands)

	Risk Category 1					
	Securities Not on Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Market Value	Fund
Asset-Backed Securities	$ 349,343	$ -	$ -	$ 349,343	$ 349,280	Various
Bankers' Acceptances	47,720	-	-	47,720	47,618	Various
Commercial Paper	29,878	-	-	29,878	29,716	Various
Corporate Obligations	60,006	-	-	60,006	60,016	Various
Government Securities	120,607	31,537	101,521	253,665	253,716	Various
Repurchase Agreements	135,000	-	-	135,000	135,000	Various
Variable-Rate	354,788	-	2,199	356,987	357,015	Various
Direct Investments:						
Money Markets				12,199	12,199	Various
Guaranteed Investment Contracts				79,562	79,562	Various
Other				8	8	Various
TOTAL CASH EQUIVALENTS				$1,324,368	$1,324,130	
Securities Lending Collateral Investment Pool			$ 29,195	$ 29,195	$ 29,195	

* At June 30, 1997, the underlying securities, with market values of $31,558,694 and $103,740,764, respectively, were loaned for securities and cash collateral under a security lending agreement with the State's agent.

As of June 30, 1997 local governments invested $321,093,643 in the STIP.

As of June 30, 1997, component units of the State of Montana had investments in cash equivalents with a book value and market value of $256,631,787.

C. Equity in Pooled Investments - Consists of investments held by pooled investment funds. The Montana Stock Pool (MONTCOMP), Trust Fund Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), and Montana International Pool (MTIP) were created to allow qualifying funds to participate in diversified investment pools. Participation is restricted to expendable trust, nonexpendable trust, pension trust, higher education endowment and trust funds and the Deferred Compensation Plan. Purchases are subject to statutory restrictions for quality and size of holdings.

TABLE 3 - EQUITY IN POOLED INVESTMENTS (In Thousands)

	Risk Category 1				
	Securities Not on Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Market Value
MONTCOMP:					
Corporate Stocks	$ 986,286	$ 38	$ 91,629	$ 1,077,953	$ 1,739,164
Preferred Stocks	1,000	-	-	1,000	1,185
TFBP:					
Corporate Asset Backed	19,548	-	-	19,548	19,792
Corporate Stocks	518,165	-	7,304	525,469	539,825
US Govt. Mortgage Backed	51,345	-	-	51,345	51,368
US Govt. Direct	92,677	9,051	107,065	208,793	214,189
Yankee Bonds	51,467	-	1,987	53,454	55,758
State and Local Government	21,934	-	-	21,934	21,890
RFBP:					
Corporate Asset Backed	54,844	-	-	54,844	55,350
Corporate Stocks	955,822	-	18,801	974,623	996,683
US Govt. Mortgage Backed	107,595	-	-	107,595	109,042
US Govt. Direct	176,470	19,475	263,412	459,357	469,123
Yankee Bonds	104,002	-	-	104,002	107,920
MTIP:					
BOI Internal International	41,690	-	9,072	50,762	54,509
Schroder Capital Management	33,480	472	1,203	35,155	38,470
Yamaichi Capital Management	30,784	261	3,135	34,180	36,916
TOTAL EQUITY IN POOLED INVESTMENTS	$3,247,109	$29,297	$ 503,608	$3,780,014	$4,511,184
Securities Lending Collateral Investment Pool			$ 589,703	$ 589,703	$ 589,703

* At June 30, 1997, these underlying securities, with market values of $29,127,687 and $566,785,759, respectively, were loaned for securities and cash under a security lending agreement with the State's agent.

As of June 30, 1997, component units of the State of Montana had equity in pooled investments with a book value of $1,048,832,559 and a market value of $1,550,017,827.

D. **Investments** - Long-term investments are primarily administered by three state agencies. Article 8 of Montana's Constitution, with supporting statutes, authorizes the Board of Investments to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the Board. The Board, as the State's primary administrator of long-term investments, actively manages 77% of those investments; the Board of Housing, 16%; and the Department of Administration's Personnel Division, 6% for the State's Deferred Compensation Plan. Additionally, the Higher Education Units manage 1% of total investments for bond related activities.

The Board must employ the "Prudent Expert Rule" in managing the State's investment portfolio. The funds carry equity securities at cost and debt securities at amortized cost. Deferred compensation plan and pension plan investments are carried at market.

The Board of Investments continued to invest in leveraged buyouts and venture capital in fiscal year 1997. The Board's total leveraged buyout commitment, administered by Kohlberg, Kravis, Roberts and Companies, amounts to $150,000,000. The leveraged buyout invested balance for the pension funds amounted to $53,577,492 on June 30, 1997.

For the purpose of portfolio diversification, the Board has committed $57,618,000 for venture capital investments administered by Brinson Partners. The June 30, 1997, venture capital invested balance totaled $8,083,179 for the Teachers' Retirement and $9,879,318 for the Public Employees' Retirement systems.

In September 1991, the board committed $5,000,000 per year for the next five years to invest in mortgage servicing rights. As of June 30, 1997, the invested balance in America's Mortgage Servicing, Inc., for both the Teacher's Retirement and the Public Employees' Retirement Systems was zero. The mortgage servicing rights were sold on June 30, 1997 with the Public Employees' Retirement and Teachers' Retirement Systems realizing gains of $1,559,349 and $1,275,831, respectively.

TABLE 4 - INVESTMENTS (RISK CATEGORIES) (In Thousands)

	Risk Category 1					
	Securities Not On Loan	On Loan for Securities Collateral*	Risk Category 2	Not Categorized*	Carrying Amount	Market Value
PRIMARY GOVERNMENT						
Corporate Bonds	$ 19,263	$ -	$ -	$ 1,233	$ 20 496	$ 20,565
Corporate Asset-Backed	3,082	-	-	-	3,082	3,072
Government Securities	18,411	9	-	42,153	60,573	60,809
Government Mortgage-Backed	-	-	-	-	-	-
Other	697	-	-	-	697	727
Total	$ 41,453	$ 9	$ -	$ 43,386	$ 84,848	$ 85,173
COMPONENT UNITS						
Corporate Bonds	$ 172,904	$ -	$ -	$ 4,293	$ 177,197	$ 179,731
Corporate Asset-Backed	65,591	-	-	-	65,591	65,605
Government Securities	64,887	-	104,592	90,544	260,023	262,691
Government Mortgage-Backed	35,802	-	-	-	35,802	35,949
Other	4,995	-	79,509	-	84,504	84,771
Total	344,179	-	184,101	94,837	623,117	628,747
TOTAL	$ 385,632	$ 9	$ 184,101	$138,223	$707,965	$ 713,920
Direct Investments:						
PRIMARY GOVERNMENT						
Real Estate					$ 2,446	$ 2, 531
Commercial Loans					118,415	118,363
Mortgages					92,198	92,614
Other					41,533	54,741
Deferred Compensation					72,282	72,588
Total					$ 326,874	$ 340,837
COMPONENT UNITS						
Real Estate					$ 2,446	$ 2,531
Commercial Loans					4,545	4,501
Mortgages					78,509	78,864
Other					30,837	40,051
Total					116,337	125,947
TOTAL INVESTMENTS					$1,151,176	$1,180,704
Securities Lending Collateral Investment Pool				$284,724	$ 284,724	$ 284,724

At June 30, 1997, the underlying securities, with market values of $16,176,083 and $214,900,371, respectively, were loaned for securities and cash collateral under a security lending agreement with the State's agent.

5. FIXED ASSETS

Fixed asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure fixed assets and interest expenditures for general fixed assets are not capitalized. Infrastructure assets of primary government and component unit proprietary activities are capitalized. Interest incurred during the construction of fixed assets for proprietary funds and higher education units is capitalized.

Fixed assets are not depreciated in the General Fixed Assets Account Group. Purchases of such assets are recorded as expenditures in the appropriate governmental fund. Fixed assets in Proprietary, Nonexpendable Trust and Pension Trust Funds are accounted for within their respective funds and are depreciated. Expendable Trust Funds do not report fixed assets within their funds because the assets are purchased by other funds. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 20 years for improvements and 3 to 10 years for equipment. Fixed assets and intangible assets for Higher Education units are accounted for in the Investment in Plant Fund and are not depreciated.

Intrafund transfers of fixed assets have not been eliminated in the table below.

Changes in fixed asset balances for the fiscal year ended June 30, 1997, are reflected in the following table (in thousands):

PRIMARY GOVERNMENT

PROPRIETARY FUNDS	Balance July 1, 1996	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1997
Land	$ 1,138	$ 5	$ 107	$ 1,036
Buildings/Improvements	5,439	70	9	5,500
Equipment	131,274	11,916	6,507	136,683
Other Fixed Assets	1,397	3	-	1,400
Construction in Progress	353	3,034	1,715	1,672
Subtotal/Total	139,601	$ 15,028	$ 8,338	146,291
Accumulated Depreciation	(76,992)			(83,355)
Total	$ 62,609			$ 62,936

NONEXPENDABLE TRUST FUNDS	Balance July 1, 1996	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1997
Land	$ 49,399	$ -	$ 1	$ 49,398
Other Fixed Assets	-	2	-	2
Total	$ 49,399	$ 2	$ 1	$ 49,400

PENSION TRUST FUNDS	Balance July 1, 1996	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1997
Land	$ 25	$ -	$ -	$ 25
Buildings/Improvements	277	-	-	277
Equipment	133	17	5	145
Subtotal/Total	435	$ 17	$ 5	447
Accumulated Depreciation	(191)			(211)
Total	$ 244			$ 236

GENERAL FIXED ASSETS ACCOUNT GROUP	Balance July 1, 1996	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1997
Land	$ 59,073	$ 3,982	$ 410	$ 62,645
Buildings/Improvements	293,362	18,798	5,604	306,556
Equipment	105,995	16,075	10,378	111,692
Other Fixed Assets	44,438	4,293	52	48,679
Construction in Progress	7,783	13,761	7,263	14,281
Total	$ 510,651	$ 56,909	$ 23,707	$ 543,853

COMPONENT UNITS

PROPRIETARY FUNDS	Balance July 1, 1996	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1997
Equipment	$ 3,804	$ 431	$ 82	$ 4,153
Accumulated Depreciation	(1,736)			(2,237)
Total	$ 2,068			$ 1,916

PENSION TRUST FUND	Balance July 1, 1996	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1997
Land	$ 35	$ -	$ -	$ 35
Buildings/Improvements	158	-	-	158
Equipment	208	23	-	231
Subtotal/Total	401	$ 23	$ -	424
Accumulated Depreciation	(214)			(242)
Total	$ 187			$ 182

HIGHER EDUCATION FUNDS	Balance July 1, 1996	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1997
Land	$ 13,293	$ 67	$ 50	$ 13,310
Buildings/Improvements	303,733	51,501	4,093	351,141
Equipment	127,276	20,352	7,190	140,438
Other Fixed Assets	74,149	5,378	459	79,068
Construction in Progress	80,871	24,861	9,434	96,298
Intangible Assets	2,247	1,239	185	3,301
Total	$ 601,569	$ 103,398	$ 21,411	$ 683,556

6. RETIREMENT SYSTEMS

DEFINED CONTRIBUTION PLAN

Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP participate in the Teachers' Retirement System, a defined benefit plan discussed in the next section. Beginning July 1, 1993, membership in the ORP is mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Approximately 1,583 employees are members of the ORP. Required employee contributions are 7.044% of salary and required employer contributions are 4.956% of salary for a total of 12% of salary contributed to the ORP.

	TIAA-CREF (in thousands)
Covered Payroll	$ 54,780
Total Payroll	198,768
Employer Contributions	$ 2,714
Percent of Covered Payroll	4.956%
Employee Contributions	$ 3,820
Percent of Covered Payroll	7.044%

DEFINED BENEFIT PLANS

A. General

The Public Employees' Retirement Division administers eight defined benefit plans - Public Employees' Retirement System (PERS), Highway Patrol Officers' Retirement System (HPORS), Judges' Retirement System (JRS), Game Wardens' Retirement System (GWRS), Sheriffs' Retirement System (SRS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and Volunteer Firefighters' Compensation Act (VFCA). The division prepares a publicly issued financial report that includes financial statements and required supplementary information for PERS, HPORS, JRS, GWRS, SRS, MPORS, FURS, and VFCA. That report may be obtained by writing to the Department of Administration, Public Employees' Retirement Division, P.O. Box 200131, Helena, Montana 59620-0131.

The Teachers' Retirement Division administers one defined benefit plan - Teachers' Retirement System (TRS). The publicly issued financial report that includes financial statements and required supplementary information for TRS may be obtained by writing to the Department of Administration, Teachers' Retirement Division, P.O. Box 200139, Helena, Montana 59620-0139.

PERS, HPORS, JRS, GWRS, SRS, MPORS, FURS and VFCA are considered part of the state of Montana's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the trust and agency fund type.

TRS is considered part of the state of Montana's financial reporting entity and is included in the accompanying financial statements as a discretely presented component unit Pension Trust Fund.

A summary of government employers participating in PERS, SRS, MPORS, FURS and TRS by employer type at June 30, 1997 follows:

Retirement System					
	PERS	SRS	MPORS	FURS	TRS
Employers					
State Agencies	36				6
Counties	55	55			
Cities/Towns	88		19	14	
Colleges/Universities	6				12
School Districts	232				397
Other	79				
Total	496	55	19	14	415

B. Plan Descriptions

The State contributes to and/or administers eight retirement systems and one pension plan in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination (except VFCA) and disability benefits. All systems (except VFCA) provide post-retirement benefits. Post-retirement benefits for the GWRS, PERS, TRS and SRS are based on investment yield, retirees' total years of service, age and option chosen at the time of retirement. Post-retirement adjustments are made only in years when funding is available and do not increase the unfunded liability of the system. The post-retirement benefits of each of the remaining systems are included in the plan descriptions below. In addition, the 1997 Legislature passed a guaranteed annual benefit adjustment (GABA) to the PERS, MPORS, GWRS, SRS, JRS, HPORS, and FURS that will provide a benefit increase of 1.5% each January, beginning January 1998, if the recipient has been receiving a retirement benefit for at least 36 months.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry age normal funding method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period not to exceed 40 years until June 30, 2005, after which the amortization period is not to exceed 30 years.

(1) State as the Single Employer

HPORS - Highway Patrol Officers' Retirement System - This system, established in 1971 and governed by Title 19, chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all uniformed members of the Montana Highway Patrol, including supervisory personnel. Member and State contributions are 9% and 36.28%, respectively, of total salaries of active highway patrol officers. For members hired on or before July 1, 1985, there is no minimum age, but minimum service is 20 years for benefit eligibility. A member hired after July 1, 1985, must be 50 years old and have 20 years of creditable service for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the final average salary. Post-retirement benefits are in the form of minimum benefit supplements which ensure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, will also receive a lump sum payment. This lump sum payment is funded by a registration fee of 25 cents per vehicle license. Rights are vested after five years of service.

JRS - Judges' Retirement System - This system, established in 1967 and governed by Title 19, chapters 2 & 5 of the MCA, provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salary and the State contributes 6% of active judges' salaries, district court fees equal to 34.71% of members' salaries, and 25% of Supreme Court fees. For benefit eligibility, minimum service is 5 years and minimum age is 65. The monthly retirement benefit formula is 3 1/3% times the number of years of service (to a maximum of 15 years) times 1/12 the current annual salary, plus 1.785% of such salary for each year of service after 15 years. JRS retirees receive increases in benefits at the same rate as salary increases are granted to active members through legislative action. Rights are vested after five years of creditable service. The current actuarial valuation indicates a material increase in retirees which increases the inactive liability resulting in a longer period of time being required to fund that liability. During the year ended June 30, 1996, actual contributions did not cover the year's normal cost.

GWRS - Game Wardens' Retirement System - This system, established in 1963 and governed by Title 19, chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, including all supervisory personnel. The member contributes 7.9% of salary and the State contributes 8.15% of active game wardens's salaries, plus all collections from fines and forfeited bonds related to fish and game law violations. For benefit eligibility, minimum age is 50 and minimum years of service are 20. A member may retire with ten years of service at age 55. The yearly retirement benefit formula is 2% times the number of years of service times the final average salary. Investment earnings in excess of 8%, if any, are used to provide post-retirement increases. Rights are vested after ten years of service.

(2) State as an Employer Contributor to a Cost-Sharing Multiple-Employer

PERS - Public Employees' Retirement System - This mandatory system, established in 1945 and governed by Title 19, chapters 2 & 3 of the MCA, provides retirement services to substantially all public employees not covered by another public system. The contribution rate is 6.70% of gross wages for both employees and employers. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking the greater of: (1) 1/56 times the number of years of service times the final average salary times any early retirement reduction if necessary or (2) a monthly annuity that is the actuarial equivalent of twice the member's accumulated regular contributions. Investment earnings in excess of 8%, if any, are used to provide post-retirement increases based on members' years of service, age and option chosen at the time of retirement. Members' rights are vested after 5 years of service.

TRS - Teachers' Retirement System - This mandatory system, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system. Member and employer contributions are 7.044% and 7.47%, respectively, of gross salaries. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for annual benefits is 1/60 times creditable service years times the final average compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

SRS - Sheriffs' Retirement System - This system, established in 1974 and governed by Title 19, chapters 2 & 7 of the MCA, covers all sheriffs, as well as all State Department of Justice investigators hired after July 1, 1993. The member contribution is 7.865% of salary; the employer contribution is 8.53% of salary. Minimum years of service for normal service retirement eligibility are 20. The service retirement benefit is calculated at 2.0834% of the final average salary for each year of creditable service plus an additional 1.35% of the final average salary for each year of creditable service in excess of 24 years. Reduced benefits for early retirement may be taken with a minimum of 15 years of service and a minimum age of 50. Investment earnings in excess of 8%, if any, are used to provide post-employment increases. Rights are vested after 5 years of service if involuntarily terminated, and after 15 years if termination is voluntary.

(3) State as a Nonemployer Contributor to a Cost-Sharing Multiple-Employer

MPORS - Municipal Police Officers' Retirement System - The system, established in 1975 and governed by Title 19, chapters 2 & 9 of the MCA, covers all municipal police officers of cities covered by the plan. The member contribution is 7.8% of salary for members employed prior to July 1, 1975; 9% of salary for members employed after June 30, 1975, and prior to July 1, 1979; and 10.5% of salary for members employed after June 30, 1979. City contributions are 14.36% of active police officers' salaries. The State contributes 15.66% of active police officers' salaries. The State's contribution is funded from the premium tax on motor vehicle property and casualty insurance policies. Minimum years of service are 10 for benefit eligibility at age 50, or 20 years of service at any age. The service retirement benefit is 2.5% times the number of years of service times the final average salary. The post-retirement benefit is the amount needed to ensure that the retiree's benefit is no less than 50% of the base salary of a newly confirmed police officer. These post-retirement benefits are paid directly by the insurance premium tax fund and are in addition to the actuarially determined contributions to the system. Rights are vested after ten years of service.

FURS - Firefighters' Unified Retirement System - This system, established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA, provides retirement benefits for all paid firefighters. The member contribution is 7.8% of base compensation, and city contributions are 14.36% of total annual compensation. The State contribution is 24.21% of total annual compensation for all firefighters and is paid out of the insurance premium tax fund. Minimum service is 20 years for benefit eligibility. For members hired prior to July 1, 1981, with at least 20 years of service, the monthly service retirement benefit is equal to ½ of the final monthly compensation received plus an additional 2% for each year in excess of 20 years. Members hired on or after July 1, 1981 receive a service retirement benefit equal to 2% of final average salary for each year of service. Post-retirement benefits require that each retiree receive at least 50% of the salary paid a newly confirmed active firefighter. The cost of this adjustment for members retired prior to July 1, 1973 and for members hired on or after July 1, 1981 is paid from the fire insurance premium tax fund, provided funds are available. Rights are vested after ten years of service.

(4) State as a Nonemployer Contributor

VFCA - Volunteer Firefighters' Compensation Act - This compensation program, established in 1965 and governed by Title 19, chapter 17 of the MCA, provides medical benefits and pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. The State contribution is 5% of fire insurance premium taxes collected. This retirement system is required by law to be fully funded and cannot pay benefits unless money is available. Rights are vested after 10 years of qualified service.

C. Summary of Significant Accounting Policies

The defined benefit plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the retirement systems. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various pricing services. The retirement systems have no investments of any commercial or industrial organization whose market value equals 5 percent or more of the retirement systems' net assets available for benefits.

E. Long-Term Contracts for Contributions

The Public Employees' Retirement System has outstanding contributions for two early retirement programs:

The 1993 Montana Legislature enacted House Bill 517--Retirement Incentive Program (RIP) providing PERS members (eligible for a service retirement) an incentive to terminate between June 25, 1993 and December 31, 1993. Local government employers participated through election on or before June 1, 1993. The employer purchased, on the member's behalf, up to three years of "1-for-5" additional service for any retirement eligible member who terminated employment during the window. A total of 898 members took advantage of the program (630 from 32 state agencies, 95 from 6 universities, and 173 from 48 local government agencies).

The 1995 Montana Legislature provided a new provision of the Employee Protection Act (HB 490) allowing state employees (eligible for a service retirement) whose positions have been eliminated on or before June 30, 1997, to have their employer purchase up to three years of "1-for-5" additional service. As of June 30, 1997, 78 employees have taken advantage of this provision.

The employer has up to 10 years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received (including interest) during fiscal year 1997 were $1,575,365. Fiscal Year 1997 outstanding balances were $734,088 (HB 517), and $592,369 (HB 490).

F. Actuarial Data

Actuarial valuations are performed every two years. Hendrickson, Miller & Associates Inc., Helena, MT, prepared the actuarial reports for the retirement systems, excluding TRS. Milliman & Robertson, Inc., of Seattle, WA., performed the actuarial valuation for TRS.

G. Net Pension Obligation

The Judges' Retirement System (JRS) net pension obligation (NPO) for fiscal year 1997 is as follows (in thousands):

Annual required contribution	$ 1,212
Interest on NPO	219
Adjustment to the annual required contribution	(303)
Annual pension cost	1,128
Contribution made	(780)
Increase in NPO	348
NPO beginning of year	2,738
NPO end of year	$ 3,086

H. Funding Policy and Annual Pension Cost

The following tables provide information concerning funding policies and annual pension costs (in thousands):

Single Employer Systems	HPORS	JRS	GWRS
Annual pension cost	$ 3,160	$ 1,128	$ 494
Contributions			
Employer	$ 1,641	$ 177	$ 250
Employee	586	207	244
License and Registration fees	932	-	-
Court fee	-	603	-
Actuarial valuation date	7/01/97	7/01/97	7/01/97
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	20.5	30.00	3.48
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market
Actuarial Assumptions:			
Investment rate of return	8.00%	8.00%	8.00%
Projected salary increases (includes inflation factor)	6.00%	6.00%	6.00%
Postretirement benefit increases	None	None	None

Single Employer Systems Year Ending	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
HPORS			
06/30/96	$ 3,163	100%	NONE
06/30/97	$ 3,160	100%	NONE
JRS			
06/30/96	$ 1,092	90.75%	$2,738
06/30/97	$ 1,128	87.50%	$3,086
GWRS			
06/30/96	$ 457	100%	NONE
06/30/97	$ 494	100%	NONE

Multiple Employer Systems			
Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
PERS			
06/30/95	$ 40,348	100%	NONE
06/30/96	40,776	100%	NONE
06/30/97	43,182	100%	NONE
MPORS			
06/30/95	$ 4,318	100%	NONE
06/30/96	4,770	100%	NONE
06/30/97	7,355	100%	NONE
FURS			
06/30/95	$ 4,158	100%	NONE
06/30/96	4,433	100%	NONE
06/30/97	6,811	100%	NONE
SRS			
06/30/95	$ 1,222	100%	NONE
06/30/96	1,527	100%	NONE
06/30/97	1,618	100%	NONE
TRS			
06/30/95	$ 39,073	100%	NONE
06/30/96	40,627	100%	NONE
06/30/97	41,640	100%	NONE

I. Schedules of Funding Progress

Single Employer Systems						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
07/01/94	$40,466	$63,327	$22,861	63.90%	$5,650	404.60%
07/01/96	47,325	67,709	20,384	69.90%	6,242	326.57%
07/01/97	50,136	67,838	17,702	73.91%	6,292	281.34%
JRS						
07/01/94	$21,281	$23,171	$ 1,890	91.84%	$2,777	68.06%
07/01/96	24,944	27,723	2,779	89.98%	2,907	95.61%
07/01/97	26,392	27,723	1,331	95.20%	2,953	45.07%
GWRS						
07/01/94	$16,297	$16,389	$ 92	99.44%	$2,494	3.70%
07/01/96	18,160	17,325	(835)	104.82%	2,762	(30.23)%
07/01/97	19,343	17,918	(1,425)	107.95%	2,974	(47.92)%

Multiple Employer Systems						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
PERS						
07/01/94	$1,366,864	$1,625,720	$258,856	84.08%	$572,974	45.18%
07/01/96	1,629,706	1,826,207	196,500	89.24%	608,592	32.29%
07/01/97	1,742,525	1,961,469	218,944	88.84%	644,509	33.97%
MPORS						
07/01/94	$ 56,209	$ 90,507	$ 34,298	62.10%	$ 13,395	256.05%
07/01/96	70,068	105,664	35,596	66.31%	15,828	224.90%
07/01/97	71,983	110,098	33,810	68.04%	16,819	201.02%
FURS						
07/01/94	$ 54,647	$ 113,153	$ 58,506	48.29%	$ 12,424	470.90%
07/01/96	67,745	131,111	63,366	51.67%	13,783	459.75%
07/01/97	67,846	134,479	66,633	50.45%	14,501	459.51%
SRS						
07/01/94	$ 55,220	$ 42,978	$ (12,242)	128.48%	$ 15,869	(77.14)%
07/01/96	68,647	52,751	(15,895)	130.13%	17,890	(88.85)%
07/01/97	73,240	52,792	(20,448)	138.73%	18,952	(107.89)%
TRS						
07/01/92	$ 954,542	$1,533,883	$579,341	62.2%	$465,063	124.5%
07/01/94	1,157,512	1,712,933	555,421	67.6%	472,860	117.4%
07/01/96	1,376,716	1,939,569	562,853	71.0%	501,516	112.2%

Nonemployer Contributor						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
VFCA						
07/01/93	$ 8,760	$15,211	$6,451	57.59%	N/A	N/A
07/01/96	11,504	16,636	5,132	69.15%	N/A	N/A

7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Federal Consolidated Omnibus Reconciliation Act (COBRA) to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are receiving employee health care benefits at the time they discontinue State employment and (2) dependents who lose dependent eligibility. At June 30, 1997, 101 individuals were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established premiums vary between $102 and $320 per month depending on the medical plan selected, family coverage and Medicare eligibility. The State acts as secondary payor for Medicare-eligible claimants. As of June 30, 1997, 2,843 retirees were receiving health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-payments of the members' selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of $9,754,257 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to $7,287,468 leaving $2,466,789 of claims in excess of premium revenue that was paid by the State.

In accordance with 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS), or an annuity under the Optional Retirement Plan (ORP). Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between $120 and $338 per month and are revised annually. Medicare eligible plan members are assumed to be Medicare-insured. After an annual $250 deductible, MUS reimburses 80% of the first $3,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursements for members eligible for Medicare even if the member is not enrolled in Medicare. As of June 30,1997, 1,248 retirees are enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 1997, estimated expenditures of $2,815,617 were recognized for postemployment health care benefits. Of this amount, $2,423,738, was covered by premiums paid by retirees and $391,879 was paid by the MUS.

8. DEFERRED COMPENSATION PLAN

Since 1976, the State of Montana has offered a deferred compensation plan which allows employees to set aside a portion of their salary toward retirement while deferring the State and Federal income taxes until future years. The compensation deferred is not available to employees until separation from State service, retirement, death or upon an unforseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance is required by January 1, 1999.

All employees of the State, including the Montana University System and contracted employees, are eligible to participate. Participating employees are able to invest their deferrals in two primary options: 1) a "fixed" or stable value option which guarantees both principal (the payroll deferral) and a quarterly rate of earnings; and 2) a "variable" option which currently consists of twenty-three (23) mutual funds. Participating employees are allowed to utilize both options and, under the variable option, as many of the offered mutual funds as they choose. As of June 30, 1997, the net assets of the Plan were $139.131 million.

9. RISK MANAGEMENT

There are two Primary Government public entity risk pools and two Component Unit public entity risk pools that are reported within the Enterprise Fund Type: Primary Government pools include Hail Insurance and Subsequent Injury Funds; Component Unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are three Primary Government Other Than Public Entity Risk Pools reported within the Internal Service Fund Type: Group Employees Comprehensive Medical and Dental Plan, Montana University System (MUS) Group Benefits Plan and Property and Casualty Insurance Plans. In all of these funds there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. None of these funds have acquisition costs; therefore, no cost is amortized for the period. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at amortized cost. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance - Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the hail insurance program. The Hail Insurance program issued 2,282 policies during the 1997 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a refund. Anticipated investment income is considered in computing a premium deficiency of which there is none.

A claim must be submitted to the State Board of Hail Insurance within fourteen days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of $504,723 based on estimated claims through June 30, 1997. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Subsequent Injury - This fund provides benefits to workers certified as vocationally handicapped who are injured on the job and entitled to benefits under the Workers' Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104 week time period. In Montana, there are 2,127 individuals certified as vocationally handicapped.

Workers' compensation insurance premium experience modification factors are influenced by the 2 year limitation and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring the certified vocationally handicapped.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed an amount of up to 5% of each insurer's compensation payments for the previous fiscal year. An estimated liability is recorded based on a projected cost (case-by-case) analysis of each injured, certified, vocationally handicapped worker. As of June 30, 1997, the amount of this liability is estimated to be $1,153,735.

(3) State Compensation Insurance (New Fund) - Liability coverage to employers for injured employees who are insured under the Workers' Compensation and Occupational Disease Acts of Montana and workers' compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund must insure any employer who desires coverage. At fiscal year-end, approximately 24,823 employers were insured with the New Fund. Montana state governmental agencies must obtain their workers' compensation coverage through the New Fund. Anticipated investment income is considered for computing a premium deficiency and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1997, has estimated liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. At June 30, 1997, $344,632,133 of unpaid claims and claim adjustment expenses are presented at their net present value of $315,107,230. These claims are discounted at an annual rate of 4.0%.

The New Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer. The New Fund did not deduct any claim liabilities related to potential reinsurance recoverable. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis; all liability of the New Fund is terminated.

Statute requires the New Fund set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus balance of 25% of annual premium revenue.

(4) State Compensation Insurance (Old Fund) - The liability and payment of workers' compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund. Funding for claim payments is provided by old fund liability taxes (OFLT) imposed on employers' payroll (0.5%), employees' wages (0.2%) and sole proprietors and subchapter S shareholders' distributive income (0.2%). The OFLT will provide funding for old fund claims. An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1997, was used to estimate liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. At June 30, 1997, $205,678,392 of unpaid claims and claim adjustment expenses are presented at face value. This fund generates little interest earnings, does not discount estimated claims liabilities, and does not compute a premium deficiency (See Note 14).

(5) Changes in Claims Liabilities For the Past Two Years - As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

Primary Government	HAIL INSURANCE		SUBSEQUENT INJURY	
	1997	1996	1997	1996
Unpaid claims and claim adjustment expenses at beginning of year	$ 618	$ 643	$ 1,022	$1,039
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	3,064	3,116	-	-
Increase (Decrease) in provision for insured events of prior years	(31)	4	402	333
Total incurred claims and claim adjustment expenses	3,033	3,120	402	333

Primary Government	HAIL INSURANCE		SUBSEQUENT INJURY	
	1997	1996	1997	1996
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(2,498)	(2,498)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(648)	(647)	(270)	(350)
Total payment	(3,146)	(3,145)	(270)	(350)
Total unpaid claims and claim adjust. exp. at end of the year	$ 505	$ 618	$ 1,154	$ 1,022

Component Units	STATE COMPENSATION INSURANCE (NEW FUND)		STATE COMPENSATION INSURANCE (OLD FUND)	
	1997	1996	1997	1996
Unpaid claims and claim adjustment expenses at beginning of year	$402,714	$541,374	$248,802	$295,749
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	81,046	102,102	-	-
Increase (Decrease) in provision for insured events of prior years	(80,752)	(169,235)	(26,812)	(24,688)
Total incurred claims and claim adjustment expenses	294	(67,133)	(26,812)	(24,688)
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(12,590)	(15,818)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(45,786)	(55,709)	(16,312)	(22,259)
Total payment	(58,376)	(71,527)	(16,312)	(22,259)
Total unpaid claims and claim adjust. exp. at end of the year	$344,632	$402,714	$205,678	$248,802

(6) Risk Management Trend Information

The following table only presents risk management trend information for the State Compensation Insurance (New Fund). Only the New Fund has a three to five year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services; its funding source is the old fund liability tax. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the New Fund and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 5 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 6 compares the latest reestimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be expanded and revised as data for successive policy years develops.

		STATE COMPENSATION INSURANCE (NEW FUND)					
	1991	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
1. Net earned required contribution and investment revenues	$115,656	$151,256	$195,216	$208,736	$174,015	$121,646	$88,014
2. Unallocated expenses including overhead	6,048	8,232	9,325	9,090	11,303	16,114	11,374
3. Estimated incurred claims and expenses, end of policy year	137,237	183,425	186,480	199,890	173,327	102,102	81,046
4. Paid (cumulative) as of:							
End of policy year	17,618	20,244	18,347	18,693	18,137	15,818	12,589
One year later	44,335	50,576	46,343	45,947	40,473	32,890	
Two years later	64,079	68,837	62,717	60,971	52,073		
Three years later	74,901	77,950	71,666	67,576			
Four years later	81,747	83,173	76,280				
Five years later	85,924	86,461					
Six years later	88,532						
5. Reestimated incurred claims and expense:							
End of policy year	137,237	183,425	186,480	199,890	173,327	102,102	81,046
One year later	166,980	184,968	184,030	184,920	124,123	88,923	
Two years later	160,272	175,218	167,052	135,472	107,074		
Three years later	151,554	161,184	133,017	116,756			
Four years later	141,389	135,775	120,583				
Five years later	130,250	125,084					
Six years later	121,568						
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	(15,669)	(58,341)	(65,897)	(83,134)	(66,253)	(13,179)	

B. Other Than Public Entity Risk Pools

(1) Group Employee Comprehensive Medical and Dental Plan - This plan is fully self-insured, with the State assuming all the risk for claims incurred by employees of the State, elected officials, retirees and their dependents. There is no third party coverage. Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement Division and self-payment and are recorded as revenue in the Employees' Group Benefits Internal Service Fund. At June 30, 1997, estimates for claims liabilities, which include incurred but not reported claims, are $7,155,542 and are based on a formula provided by The Segal Company, a consulting actuarial firm. A liability is reported in the accompanying financial statements for these estimated claims.

(2) Montana University System (MUS) Group Benefits Plan - This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, the Montana Higher Education Student Assistance Corporation (MHESAC), and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured. Blue Cross/Blue Shield is the claims administrator on the plan. Managed Care Montana (Blue Cross/Blue Shield of Montana) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Internal Service Fund. The claims liability is estimated to be $3,700,000 as of June 30, 1997, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Property & Casualty Insurance Plans - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage and State-administered foreclosure housing units. The State self-insures the $150,000 deductible per occurrence for most property insurance as well as various deductible amounts for other state property. The State also self-insures against losses of equipment below $150,000 of value, with State agencies paying the first $1,000. Commercial property insurance protects approximately $1.8 billion of State-owned buildings and contents. The State property insurance includes earthquake and flood protection to $100 million annually with deductibles of $1 million for earthquake and $500,000 for flood per occurrence. Premiums are collected from all State agencies including Component Units and recorded as revenue in the Administration Insurance Internal Service Fund.

A biennial actuarial study, prepared by Tillinghast, a Towers Perrin Company, and issued for the accident period 7/1/88 through 6/30/97, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 1997, estimated claims liability of $12,825,397, discounted at 11.1%, includes those claims incurred but not reported and is reported in the accompanying financial statements (See Note 14).

(4) Changes in Claims Liabilities For the Past Two Years - These funds establish liabilities for both reported and incurred but not reported claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Medical & Dental		MUS Group Benefits		Prop. & Casualty Insurance	
	1997	1996	1997	1996	1997	1996
Amount of claims liabilities at the beginning of each fiscal year	$ 6,959	$ 6,760	$ 3,100	$ 3,200	$14,980	$19,329
Incurred claims:						
Provision for insured events of the current year	40,157	38,372	20,928	18,264	4,520	5,326
Increases (Decreases) in provision for insured events of prior years	197	199	600	(100)	(2,037)	(5,418)
Total incurred claims	40,354	38,571	21,528	18,164	2,483	(92)
Payments:						
Claims attributable to insured events of the current year	(40,157)	(38,372)	(20,928)	(18,264)	(1,075)	(920)
Claims attributable to insured events of prior years	-	-	-	-	(3,563)	(3,337)
Total Payments	(40,157)	(38,372)	(20,928)	(18,264)	(4,638)	(4,257)
Total claims liability at end of each fiscal year	$ 7,156	$ 6,959	$ 3,700	$ 3,100	$12,825	$14,980

10. COMMITMENTS

A. **Highway Construction** - At June 30, 1997, the Department of Transportation had contractual commitments of approximately $140.3 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. **Capital Construction** - At June 30, 1997, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $37.5 million for capital projects construction. The Primary Government will fund $25.4 million of these projects with the remaining $12.1 million coming from higher education funds.

C. **Proprietary Fund Commitments** - Budgets are administratively established in the Enterprise and Internal Service Funds, excluding depreciation, compensated absences and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unreserved retained earnings in the accompanying financial statements as follows (in thousands):

PRIMARY GOVERNMENT

Enterprise Funds	AMOUNT
Liquor Stores	$ 24
Hail Insurance	3
Uninsured Employers	6
Historical Society Publications	10
Local Government Audits	8
Subtotal-Enterprise Funds	$ 51
Internal Service Funds	
Highway Equipment	$ 321
ISD	134
Admin. Insurance	9
FWP Equipment	10
Admin. Supply	125
Publications & Graphics	10
Buildings & Grounds	268
Labor Central Services	25
Commerce Central Services	1
DEQ Indirect Cost Pool	72
FWP Warehouse Inventory	20
Mail & Messenger	2
Investment Division	22
OPI Central Services	2
Admin. DP Unit	1
Subtotal-Internal Service Funds	$ 1,022
Total-Primary Government	$ 1,073

COMPONENT UNITS	
Housing Authority	$ 1
Health Facilities Authority	2
Worker's Comp - New Fund	372
Subtotal-Component Units	$ 375
Total-Proprietary Fund Types-Reporting Entity	$ 1,448

11. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases - Changes in capitalized leases/installment purchases follow (in thousands):

Primary Government	Balance July 1, 1996	Additions (Deductions)	Balance June 30, 1997
General Long-Term Obligations	$ 2,077	$ (410)*	$ 1,667
Proprietary Fund Types			
Enterprise Fund	$ 10	$ (8)	$ 2
Internal Service Fund	2,335	262	2,597
Total Proprietary	2,345	254	2,599
Total-Primary Government	$ 4,422	$ (156)	$ 4,266
Component Units			
Pension Trust Fund	$ 31	$ (21)	$ 10
Higher Education Funds	1,802	(212)	1,590
Total-Component Units	$ 1,833	$ (233)	$ 1,600
Total Capitalized Leases/ Installment Purchases	$ 6,255	$ (389)	$ 5,866

*This amount consists of $248,000 of additions as inceptions; $125,000 of additions as adjustments; and $783,000 as deductions.

Future minimum lease payments under capital leases/installment purchases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government General Long-Term Obligations	Proprietary Fund Types Enterprise	Proprietary Fund Types Internal Service	Component Units Pension Trust	Component Units Higher Education Funds	Totals
1998	$ 857	$ 1	$ 1,431	$ 10	$ 825	$ 3,124
1999	636	1	934	-	613	2,184
2000	434	-	363	-	252	1,049
2001	54	-	33	-	61	148
2002	-	-	16	-	19	35
2003+	-	-	-	-	-	-
Total minimum pmts	$ 1,981	$ 2	$ 2,777	$ 10	$ 1,770	$ 6,540
Less: Interest	(314)	-	(180)	-	(180)	(674)
Present value of minimum payments	$ 1,667	$ 2	$ 2,597	$ 10	$ 1,590	$ 5,866

B. Operating Leases - Total rental payments for operating leases in fiscal year 1997 were $6,359,512. Future rental payments for operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Amount
1998	$ 6,174
1999	4,805
2000	3,274
2001	2,416
2002	1,606
2003+	3,635
Total future rental payments	$ 21,910

12. STATE DEBT

A. General Information - The State has no constitutional limit on its power to issue obligations or incur debt other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-Term Debt - The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The Board of Investments (BOI) of the State of Montana is authorized to issue Municipal Finance Consolidation Act Bonds which may not aggregate more than $50 million. The purpose of the bonds is to provide funds for the BOI to make loans to eligible local government units. The bonds are not in any way a debt or liability of the State of Montana. The bonds are limited obligations of the BOI payable solely from repayments of principal and interest on loans made by the BOI to participating local government units, investment income under the indenture and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the Trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and have been reclassified as short-term debt. The amounts issued and outstanding at June 30, 1997, are as follows (in thousands):

Series	Amount Issued	Balance June 30, 1997
1991	$ 5,000	$ 4,805
1992	6,500	6,355
1994	7,500	7,345
1995	7,500	7,405
1997	10,000	10,000
TOTAL		$35,910

C. Long-Term Debt - The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue bonds and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities. Long-term debt (excluding bonds/notes of Enterprise Funds and Internal Service Funds discussed elsewhere in this footnote; Leases - Note 11 and Compensated Absences - Note 1) of the State at June 30, 1997, is as follows (in thousands):

				Principal Payments		
General Obligation Debt	Series	Amount Issued	Interest Range (%)	FY 1998	In Year of Maturity (11)	Balance June 30, 1997
Long-Range Bldg Program	1985A	$ 8,550	8.0	$ 125	$150 (2001)	$ 550
Water Development Program (1)	1988	500	9.4	20	50 (2009)	385
Water Development Program (1)	1989B	500	8.55	20	50 (2010)	410
Water Development Program (1)	1991A	750	8.0	40	90 (2007)	605
Wastewater Treatment Works	1991B	2,595	5.6-6.8	80	215 (2014)	2,315
GO Refunding	1992	31,330	4.7-6.2	55	390 (2010)	5,010
Energy Conservation Program (2)	1993A	1,500	4.0-4.75	140	180 (2004)	1,110
Long-Range Bldg Program	1993B	3,185	3.3-4.25	370	310 (2004)	2,145
Renewable Resource Development(1)	1993C	750	4.55-5.65	70	95 (2004)	565
Long-Range Bldg Program	1994A	22,540	4.2-6.0	795	1,725 (2014)	20,330
Wastewater Treatment Works	1994B	2,200	4.4-6.1	65	180 (2016)	2,135

				Principal Payments		
General Obligation Debt	Series	Amount Issued	Interest Range (%)	FY 1998	In Year of Maturity (11)	Balance June 30, 1997
Long-Range Bldg Program	1994C	21,955	5.125-7.0	705	1,790 (2015)	20,630
Energy Conservation Program (2)	1994D	1,600	4.9-6.25	140	200 (2005)	1,340
Renewable Resource Development (1)	1994E	750	7.7-8.5	60	105 (2005)	640
Energy Conservation Program (2)	1996A	1,650	3.6-4.4	140	195 (2006)	1,485
Renewable Resource Development (1)	1996B	1,250	5.35-6.1	100	155 (2006)	1,125
Wastewater Treatment Works	1996C	2,765	3.75-5.75	55	120 (2017)	2,765
Long-Range Bldg Program	1996D	30,075	5.25-6.0	-		30,075
Renewable Resource Development (1)	1996E	1,000	6.95-8.0	-		1,000
Renewable Resource Development (1)	1997A	2,000	6.8-8.0	-		2,000
Total General Obligation Debt		$ 137,445		$ 2,980		$ 96,620
Special Revenue Bonds						
Department of Transportation	1987	$ 37,955	6.25	$ 9,795	$9,795 (1998)	$ 9,795
Water Conservation (3)	-	100	3.463-5.0	3	3 (2016)	64
Water Development Program (4)	1987C	1,215	6.8-7.6	50	120 (2008)	895
Broadwater Power Project (4)(6)	1990A	3,800	9.5	360	505 (2002)	2,155
Broadwater Power Project (4)(5)	1991A	21,735	6.4-6.875	-	2,135 (2018)	21,735
Water Development Program (4)	1992A	11,955	4.75-6.1	805	1,250 (2006)	9,055
Water Development Program (4)	1992B	9,375	4.5-6.0	320	795 (2013)	8,230
Department of Transportation	1993	72,375	4.25-5.05	2,000	3,705 (2004)	65,375
Renewable Resource Program (4)	1996A	14,985	3.85-5.2	910	110 (2017)	14,135
Renewable Resource Program (4)	1997A	1,205	6.0-7.3	30	110 (2017)	1,205
Renewable Resource Program (4)	1997B	2,660	3.75-5.375	80	210 (2017)	2,660
Developmental Center Project (10)	1994	13,100	4.9-6.4	305	1,015 (2019)	12,740
Total Special Revenue Bonds		$190,460		$14,658		$148,044
Middle Creek Dam Project (7)		$ 2,990	8.125	$ 32	124 (2034)	$ 3,171
Treasure State Endowment (8)		4,134	5.85	420	779 (2001)	3,136
Natural Resource Damage Lit. Pgm. (9)		9,816	-	-	-	9,816
Dept. of Justice INTERCAP Loan (12)		500	4.85	50	50 (2007)	500
Public Health and Human Services INTERCAP Loan (12)		2,162	6.60	-	-	2,162
Total Notes Payable		$ 19,602		$ 502		$ 18,785
Total Special Revenue Debt						$166,829

(1) All Water Development Program Bonds and the Renewable Resource Development Bonds are secured additionally by a pledge of and payable from certain coal severance taxes. Series 1988, 1989B, 1991A and 1993C bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
(2) Bonds issued for financing the design, construction and installation of energy conservation projects at various State buildings.
(3) Bonds sold to Farmers Home Administration.
(4) Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes and project revenues.
(5) First payment of $795,000 is due in 2003.
(6) Bonds were sold to the Montana Board of Investments.
(7) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes $269,804 of interest owed.
(8) Board of Investments Treasure State Endowment loan from the Coal Tax Trust Fund to the State of Montana Department of Commerce.
(9) Board of Investments loan to the Department of Justice for the Natural Resource Damage Litigation Program. Interest accrues at .5% over the yield on the most recent issue of United States Government 30 Year Bonds. Loan repayment is secured by a pledge of amounts to be recovered in the ongoing litigation with Atlantic Richfield Company.
(10) Montana Health Facility Authority Loan to the Department of Public Health and Human Services for the Montana Developmental Center Project.
(11) Year of Maturity refers to fiscal year.
(12) Montana Board of Investments loans to Departments from the INTERCAP loan program.

Board of Regents Issues Higher Education Units - Component Unit	Series	Amount Issued	Interest Range (%)	Principal Payments FY 1998	Principal Payments In Year of Maturity	Balance June 30, 1997
University of Montana-Missoula (U of M)	1993A/1995B/ 1995C/1996D	$ 94,607	3.4-6.9	$2,284	$ 5,632 (2019)	$ 89,572
Montana State University-Bozeman (MSU)	1987A/1993A/ 1996D/1996B	74,082	3.65-8.0	1,905	15,340 (2022)	71,012
Montana Tech of the U of M	1995C/1996D	13,077	3.8-5.75	350	547 (2018)	12,767
MSU - Billings	1996D	16,680	3.6-5.625	260	1,070 (2026)	16,215
MSU - Northern	1994C	2,890	4.25-6.0	95	100 (2015)	2,640
Western Montana College of the U of M (WMC)	1993A/1995B/ 1995C/1996D	7,378	3.4-6.9	74	536 (2019)	7,158
Helena College of Technology of The University of Montana (HCT)	1995B/1995C	767	4.1-6.4	41	51 (2018)	707
		$209,481		$5,009		$200,071
Add: Unamortized Premium						23
Less: Unamortized Discount						(2,383)
Total Higher Education Bonded Debt						$197,711
Higher Ed Nonbonded Debt						
U of M - Missoula, Bookstore Note		$ 500	Variable	$ -	$ 500 (2005)	$ 500
U of M - Missoula, INTERCAP Program Note		623	Variable	75	97 (2007)	568
U of M - First Interstate Mortgage		281	8.5	6	28(2017)	281
MSU - Bozeman, Fiber Note		746	5.9	137	98 (2002)	685
MSU - Billings, SD #2 Note		876	N/A	95	95 (1999)	190
MSU - Northern, INTERCAP Program Note		1,269	Variable	172	189(2007)	1,233
WMC - UM, INTERCAP Program Note		98	Variable	34	18 (2000)	67
WMC - UM, Mortgages Payable		70	6.5	3	6 (2009)	61
WMC - UM, Kurtz Property Payable		105	6.45	3	61 (2009)	104
MSU - College of Technology, Great Falls, Note		100	5.38	19	22 (2001)	82
Total Higher Education Nonbonded Debt		$ 4,668		$ 544		$ 3,771
TOTAL HIGHER EDUCATION FUNDS						$201,482

Debt service requirements (principal and interest) for long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds are as follows (in thousands):

Fiscal Year Ending June 30	General Obligation Debt	Special Revenue Bonds	Higher Ed Bonded Debt	Non-Bonded Debt	Total Requirements
1998	$ 9,189	$ 22,354	$ 13,804	$ 1,391	$ 46,738
1999	9,564	20,850	14,420	1,331	46,165
2000	9,415	20,809	14,595	12,030	56,849
2001	9,369	20,772	14,619	1,335	46,095
2002	9,187	20,750	14,638	2,321	46,896
2003+	102,083	102,437	261,526	7,046	473,092
Totals	$ 148,807	$207,972	$333,602	$25,454	$ 715,835

A summary of changes in long-term liabilities payable reported in the General Long-Term Obligations Account Group for the fiscal year ending June 30, 1997, is as follows (in thousands):

	Balance July 1, 1996	Additions	Reductions	Balance June 30, 1997
Early Retirement Benefits	$ 520	$ 813	$ 89	$ 1,244
Arbitrage Rebate Tax	28	56	11	73
Net Pension Obligation	2,738	336	-	3,074
General Obligation Debt	$ 69,620	$ 33,075	$ 6,075	$ 96,620
Special Revenue Debt	173,877	7,280	14,328	166,829
Totals	$ 246,783	$ 41,560	$ 20,503	$ 267,840

D. **Early Retirement Benefits Note**

The 1993 Montana State Legislature granted an early retirement incentive. The incentive consisted of an additional three years of employer and employee contributions paid by the employer agency to the State of Montana Public Employees' Retirement System. The payments may be made over a period of time not to exceed nine years at an interest rate of eight percent. Debt Service requirements are as follows (in thousands):

	Principal Payments		
	FY 1998	In Year of Maturity	Balance June 30, 1997
Primary Government:			
General Obligation Debt	$ 124	$ 207	$1,244
Component Unit:			
Higher Education Units	11	16	82
TOTAL	$ 135	$ 223	$1,326

E. **Early Bond Redemption**

On October 3, 1996, the State Compensation Insurance (Old Fund), a Component Unit of the State of Montana, deposited $99,384,056 of cash available from a cash dividend, the bond reserve fund and funds in excess of the amount needed to pay Old Fund claims, with an escrow agent to be invested in federal securities to provide for future debt service requirements. The escrow is irrevocable, but the Montana Board of Investments has retained the right to call the bonds prior to maturity if the value of the escrow is sufficient to do so. The transaction met the requirements of a legal defeasance and the balance of $97,885,000 of Payroll Tax bonds, maturing on June 1, 2020, was removed from the Old Fund's financial statements. The Old Fund recognized an extraordinary loss on extinguishment of debt of $3,208,210.

On January 2, 1997, the State Compensation Insurance (Old Fund), a Component Unit of the State of Montana, wired $32,504,037 of cash available from a cash dividend, the bond reserve fund and funds in excess of the amount needed to pay Old Fund claims, to the trustee as final principal and interest payments on the series 1993 Variable-Rate Payroll Tax bonds. The balance of $32,500,000 of Variable-Rate Payroll Tax Bonds was removed from the Old Fund's financial statements. The early payment of this debt resulted in an extraordinary loss on extinguishment of debt of $326,990.

F. **Refunded Bonds**

On June 4, 1997, the Housing Authority, a Component Unit of the State of Montana, issued $91,360,000 Single Family Program Bonds, Series 1997A. A portion of these proceeds were deposited with an escrow agent to refund the 1977A, 1977B, 1978A, 1987A and 1987B bond issues. These series had a total of $31,360,000 of bonds outstanding. On July 3, 1997, the escrow agent redeemed all bonds outstanding in the refunded series. The Housing Authority deferred $17,595 of costs related to the refundings of the 1977A, 1977B, 1978A, 1987A and 1987B bonds. These deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds. The 1997A refunding resulted in an economic gain of $1,609,593 and a difference in cash flows of $(41,909,140).

On August 21, 1996, Montana State University (MSU), a Component Unit of the State of Montana, issued $16,680,000 of Facilities Improvement and Refunding Bonds, 1996 Series D, for MSU - Billings, with interest rates ranging from 3.6 to 5.625%. MSU - Billings deposited $8,150,900 of proceeds with an escrow agent to be invested in federal securities to provide for future debt service payments. The transaction met the requirements of a legal defeasance and $8,170,000 of 1994 Series C Facilities Acquisition and Improvement Revenue Bonds, maturing on November 15th, 2006, were removed from MSU - Billings financial statements. The defeasance resulted in an economic gain of $64,704 and a difference in cash flows of $(2,642,488).

On October 1, 1996, MSU - Bozeman, a Component Unit of the State of Montana, issued $18,995,000 of Facilities Refunding Bonds, 1996 Series B, with interest rates ranging from 5 to 5.5%. MSU - Bozeman deposited the proceeds, along with other pledged revenues, with an escrow agent to be invested in federal securities to provide for future debt service payments. The transaction met the requirements of a legal defeasance and $18,440,000 of 1986 Series A Facilities Refunding Revenue Bonds, maturing on November 15th, 2007, were removed from MSU - Bozeman's financial statements. The defeasance resulted in an economic gain of $1,043,736 and a difference in cash flows of $1,429,473.

In prior years, the State of Montana and the Board of Regents of Higher Education have issued general obligation and revenue refunding bonds, the proceeds of which were used to defease certain bond issues already outstanding. The proceeds of the refunding issues were placed in escrow accounts and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the refunded issues. Accordingly, the debt is considered defeased for financial reporting purposes and the liability for the defeased bonds is not included in the financial statements. At June 30, 1997, the in-substance defeased bonds outstanding are as follows (in thousands):

General Obligation	$ 12,910
Special Revenue	118,940
Higher Education Revenue	36,423
Total	$168,273

G. **Enterprise Funds**

(1) **Economic Development & Municipal Finance Consolidation Act Bonds (EDB)** - This program is directed by the nine-member Board of Investments which is attached to the Department of Commerce for administrative purposes. This

program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions. Outstanding obligations are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments FY 1998	Principal Payments In Year of Maturity	Balance June 30, 1997
Industrial Development Revenue Bonds (Pooled Loan) (a)	1984A	$ 70	7.0-10.75	$ 5	$ 15 (2000)	$ 25
Industrial Development Revenue Bonds (Pooled Loan) (a)	1985A,G,H	790	6.75-10.1	35	95 (2007)	565
Municipal Finance Consolidation Act Bonds (Irrigation Program) (b)	1988	4,976	6.60-7.75	545	130 (2014)	4,161
Economic Development Bonds (Conservation Reserve Enhancement Program) (c)	1991A-B	7,380	10.0-11.2	880	285 (2000)	1,600
Municipal Finance Consolidation Act Bonds (d)	1991	6,234	4.75-6.5	447	294 (2005)	2,859
TOTAL BONDS PAYABLE		$19,450		$ 1,912		$ 9,210
Conservation Reserve Enhancement Program (CRP Notes) (c)		2,970	7.5-9.92	945	169 (2003)	2,970
TOTAL BONDS/NOTES PAYABLE		$22,420		$ 2,857		$12,180

(a) These bonds, which may not aggregate more than $75 million, are limited obligations of the Board of Investments payable solely from and secured by certain revenues and assets pledged pursuant to an Indenture of Trust. The bonds do not constitute a debt, liability or legal obligation of the State of Montana. However, if the balance in the "Capital Reserve Account A" falls below the indenture requirement, the Governor is required to request the Legislature to appropriate funds to restore the balance. The Legislature may, but is not legally obligated to, appropriate funds to correct any such deficiency. Principal payments (accrued interest to be added) are due each March 15.

(b) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment levied against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The indenture does not permit the issuance of additional bonds.

(c) These bonds and notes were issued for the purpose of providing funds for the Board of Investments, State of Montana, to make loans to participating farmers and ranchers under its Conservation Reserve Enhancement Program. The Series 1991 Bonds are not in any way a debt or liability of the State of Montana, and neither the full faith and credit, nor the taxing power of the State of Montana is pledged to the payment of the principal of or interest on the Series 1991 Bonds. However, the 1991 Bonds are limited obligations of the Board of Investments. The Bond Anticipation Notes which matured on November 15, 1992, were reissued to correspond with maturities per the underlying loans. On November 15, 1994, eleven BAN's were reissued to comply with statutory requirements limiting the maturity of notes to five years from issuance date. The outstanding BANS as of November 15, 1996 were reissued as loans to comply with statutory requirements. The board now issues CRP bonds for the duration of the CRP contract purchased.

(d) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of participating Montana School Districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments, and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the state is pledged to the payment of principal of or interest on the bonds.

Debt service requirements (principal & interest) for EDB are as follows (in thousands):

1998	1999	2000	2001	2002	2003+	Totals
$ 3,728	$2,789	$2,235	$1,645	$1,366	$4,688	$16,451

(2) **Internal Service Bonds/Notes Payable** - State agencies may obtain long-term financing for Internal Service Funds through the Board of Investments INTERCAP loan program. Outstanding obligations at June 30, 1997 are as follows (in thousands):

			Principal Payments		
Department	Amount Issued	Interest Rate (%)	FY 1998	In Year of Maturity	Balance June 30, 1997
Department of Transportation - Motor Pool	$ 2,314	4.75-5.15	$ 463	463 (2002)	$ 2,314
TOTAL BONDS/NOTES PAYABLE	$ 2,314		$ 463		$ 2,314

Debt service requirements (principal & interest) for Internal Service Funds are as follows (in thousands):

1998	1999	2000	2001	2002	2003+	Total
$ 532	$ 463	$ 463	$ 463	$ 463	-	$2,384

(3) **Board of Housing (BOH) (Housing Authority) - Component Unit - Revenue Bonds** - The Montana Board of Housing is authorized to have an aggregate of $975 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Governor shall include in the executive budget submitted to the legislature the sum required to fund possible future deficiencies in required reserves; however, the legislature is not legally required to appropriate funding for such deficiencies. None of the outstanding bonds were issued under these provisions. BOH Revenue Bonds (net) outstanding at June 30, 1997, are as follows (in thousands):

				Principal Payments		
Program	Series	Amount Issued	Interest Rate (%)	FY 1998	In Year of Maturity	Balance June 30, 1997
Single Family I	1997A	$ 91,360	4.0-6.15	$ 65	$ 955 (2038)	$ 91,360
Subtotal		$ 91,360		$ 65		$ 91,360
Single Family II	1983C	$114,998	5.75-10.7	$ -	$ 2,510 (2010)	$ 17,934
	1984A	75,002	7.0-10.375	-	2,790 (2010)	3,271
	1985A	40,000	5.5-9.75	-	5,170 (2016)	10,473
	1985B	74,997	5.7-9.75	-	400 (2011)	3,590
	1992RA	22,520	5.65-6.5	-	10 (2032)	22,520
	1994A	25,725	3.1-6.1	1,495	550 (2024)	19,795
	1994B	40,815	3.8-6.9	2,440	580 (2025)	30,190
	1994C	20,000	4.5-6.8	405	575 (2026)	18,810
	1995A	33,580	4.75-6.55	465	1,055 (2027)	32,040
	1995B	88,000	4.2-6.4	305	1,480 (2035)	88,000
	1996A	65,000	4.7-6.375	-	2,315 (2028)	65,000
Subtotal		$600,637		$ 5,110		$311,623
Single Family III	1988B1-B2	$ 25,000	6.2-8.9	$ 225	$ 300 (2020)	$ 8,790
Single Family IV	1989A1-A2	25,000	7.0-9.2	160	420 (2020)	9,455
Single Family V	1990A1-A2	25,000	6.2-8.525	270	640 (2021)	10,930
Single Family VI	1990B1-B2	25,000	6.3-8.5	260	680 (2022)	11,790
Single Family VII	1990C1-C2	25,000	6.55-8.95	245	705 (2022)	11,370
Single Family VIII	1991A1-A2	25,000	5.2-8.275	345	875 (2022)	14,485
Single Family IX	1991B1-B2	25,000	5.5-8.4	315	875 (2023)	15,110
Single Family X	1992A1-A2	25,000	4.45-7.85	325	825 (2023)	16,745
Multifamily	1978A	4,865	6.125	75	645 (2020)	4,180
	1992	9,725	2.95-6.55	170	50 (2024)	9,140
	1996A	890	4.10-6.15	15	60 (2027)	890
Subtotal		$ 15,480		$ 260		$ 14,210
TOTAL		$907,477		$ 7,580		$515,868
Add: Deferred amount on refunding						728
Add: Unamortized bond premiums						49
TOTAL BOH BONDS PAYABLE (net)						$516,645

Debt service requirements (principal & interest) for all BOH programs are as follows (in thousands):

1998	1999	2000	2001	2002	2003+	Total
$39,036	$39,809	$40,700	$41,185	$40,908	$969,852	$1,171,490

H. **No-Commitment Debt** - Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) **Montana Board of Investments (BOI)** - The BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. The industrial revenue bonds issued by BOI do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1997, outstanding industrial revenue bonds are as follows (in thousands):

Project	Date of Issue	Amount Issued	Amount Outstanding
Montana Cenex	August 1985	$ 3,925	$ 3,925
Bozeman Holiday Inn	October 1987	4,485	3,545
Colstrip	October 1989	60,800	60,800
Yellowstone Energy (BGI)	July 1993	118,345	118,345
Total		$187,555	$186,615

(2) **Beginning Farm Loan Program** - The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 1997, is as follows:

Jorgensen Project - issued $81,600; outstanding $31,178.

(3) **Montana Health Facility Authority (MHFA) - Component Unit** - The MHFA is authorized to issue bonds and notes to finance projects for qualifying health institutions. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1997, the MHFA had issued bonds and notes as follows (in thousands):

Project	Date of Issue	Amount Issued	Amount Outstanding
West Mont Home Health Services	June 1985	$ 440	$ 163
MHFA 1985 Pooled Loan Projects	December 1985	66,900	35,900
Community Provider Pooled Loans	October 1988	1,461	718
Kalispell Regional Hospital	June 1990	14,475	11,985
Community Provider Pooled Loan	July 1990	5,858	4,698
Deaconess Medical Center (Series A)	February 1991	18,000	18,000
Deaconess Medical Center (Series B)	February 1991	18,000	18,000
Sisters of Providence	May 1991	56,535	45,855
Deaconess Medical Center	September 1991	32,650	28,650
Deaconess Medical Center	September 1991	7,000	3,355
Community Provider Pooled Loans	September 1991	3,944	3,254
Hospital Pooled Loans	August 1992	4,645	3,200
Richland Opportunities	January 1993	200	176
Bozeman Deaconess Foundation	June 1993	14,900	11,910
Sisters of Charity	January 1994	50,915	45,580
Deaconess-Billings Clinic	January 1994	58,870	58,870
Residential Support Services	March 1994	50	44
Mineral Community Hospital	March 1994	39	15
Community Memorial Hospital (1)	October 1994	570	355
St. John's Retirement Home	October 1994	2,000	2,000
North Valley Hospital (Series C) (1)	October 1994	695	435
North Valley Hospital (Series D) (1)	October 1994	1,310	1,120
St. John's Retirement Home	October 1994	300	150
Northern MT(1)	October 1995	5,645	5,395
Northern MT	November 1995	6,090	6,090
Livingston Hospital	May 1995	559	339
Toole County Hospital	August 1996	1,635	1,635
Marcus Daily Memorial Hospital	August 1996	1,860	1,860
Glendive Community Hospital	August 1996	1,590	1,590
Mission Ridge	August 1996	17,835	17,835
Community Medical Center-Missoula	August 1996	23,043	22,220
Benefis	September 1996	16,680	16,680
St. Peter's Hospital	January 1997	19,875	19,225
Total		$454,569	$387,302

(1) The Board of Investments (BOI) and the MHFA have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund, a Trust Fund Bond Pool participant, or any other legally available funds administered by the BOI.

13. INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets, service debt, etc. Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. To the extent that certain transactions between funds are not paid or received as of June 30, 1997, interfund receivables/payables (Due From/To Other Funds) are recorded. The schedule below presents all interfund balances outstanding at June 30, 1997, (in thousands) and interfund activity for the fiscal year then ended:

Within Primary Government and Component Units	Interfund Loans/Advances Receivable	Interfund Loans/Advances Payable	Due From Other Funds	Due To Other Funds	Operating Transfers In	Operating Transfers Out	Residual Equity Transfers In	Residual Equity Transfers Out
General	$ 29,509	$ -	$ 35,691	$ 15,060	$154,726	$ 6,426	$ 5,494	$ -
Special Revenue								
State	44,028	10,452	7,249	26,786	30,407	26,855	-	2,044
Federal	30	55,737	3,702	17,568	2,722	13,014	-	2,772
Debt Service								
Coal Tax Bonds	-	-	3	8	2,985	398	2,914	-
Long-Range Building Program	-	-	244	1,242	5,573	54,738	-	-
Water Development	-	-	1	410	50	457	1,562	-
Highway Revenue Bonds	-	-	-	-	15,176	-	-	-
Health Care Debt Service	-	-	413	-	3,703	-	-	-
Energy Bonds	-	-	-	152	-	152	-	-
Capital Projects								
Long-Range Building Program	-	203	281	354	2,745	1,660	-	-
Fed/Priv Construction Grants	-	-	-	-	401	25	-	
Capital Land Grant	-	-	54	-	966	573	-	-
Enterprise								
Economic Development Bonds	-	-	-	13	-	-	-	-
Liquor Stores	-	-	-	4,095	-	15,169	-	-
Hail Insurance	-	-	-	66	-	43	-	-
State Lottery	-	-	17	1,848	-	6,603	-	-
Prison Ranch	-	-	58	73	-	-	-	-
Prison Industries	-	-	87	59	-	-	-	-
Uninsured Employers	-	-	12	41	-	-	-	-
Subsequent Injury	-	-	-	1	-	-	-	500
Montana Career Info. Systems	-	-	-	6	-	-	-	-
Sec. of State Business Services	-	-	11	73	-	-	-	-
Historical Soc. Publications	-	-	-	44	55	-	-	-
Surplus Property	-	-	1	22	-	-	-	-
West Yellowstone Airport	-	-	-	5	30	-	-	-
Local Govt. Audits	-	-	-	14	-	-	-	-
Def. Comp. Administration	-	-	242	-	-	-	-	-
Internal Service								
Highway Equipment	-	-	395	387	-	-	-	-
Employees' Group Benefits	440	-	-	57	-	-	-	-
ISD	-	-	1,465	386	96	-	-	-
MUS Group Insurance	-	-	272	9	-	-	-	-
Administration Insurance	-	-	7	64	-	-	-	-
FWP Equipment	-	-	349	5	184	1	-	-
Motor Pool	-	-	194	11	-	-	999*	2,292
Administration Prop. & Supply	-	-	108	24	-	-	-	-
Publications & Graphics	-	-	208	60	-	-	-	-
Buildings & Grounds	-	-	42	98	22	102	-	-
Labor Central Services	-	-	111	96	-	-	-	-
Commerce Central Services	-	-	127	142	-	-	-	-
DEQ Indirect Cost Pool	-	-	178	88	-	-	-	-
PHHS Indirect Cost Pool	-	-	-	-	-	10	-	-
FWP Warehouse Inventory	-	-	4	-	-	-	-	-
Mail & Messenger	-	25	77	29	-	-	-	-
Payroll Processing	-	-	-	50	-	-	-	-
Warrant Processing	-	-	53	35	-	-	1	-
Investment Division	-	-	121	96	-	-	-	-
Aircraft Operation	-	-	11	21	402	-	-	-
Justice Legal	-	60	65	118	-	-	-	-
OPI Central Services	-	-	141	43	425	-	-	-
Personnel Training	-	-	17	13	-	-	-	-
Records Management	-	-	41	28	-	-	-	-

Within Primary Government and Component Units	Interfund Loans/Advances Receivable	Interfund Loans/Advances Payable	Due From Other Funds	Due To Other Funds	Operating Transfers In	Operating Transfers Out	Residual Equity Transfers In	Residual Equity Transfers Out
FWP Office Supply	-	-	6	3	-	-	-	-
Debt Collections	-	-	6	13	-	-	-	-
Administration Legal	-	-	-	6	-	-	-	-
Local Govt Administration	-	-	8	8	-	-	-	-
Natural Gas Procurement	-	-	-	1	-	-	-	-
Administration DP Unit	-	-	3	10	-	-	-	-
Expendable Trusts								
Unemployment Insurance	-	20	2	-	-	-	-	-
Intergovernmental Trust	-	-	2,254	1	-	-	-	-
Rural Development	-	-	7	3	-	-	-	-
Escheated Property	-	-	-	-	55	1,323	-	-
Historical Society General	-	-	-	-	-	8	-	-
Metal Mines Local Assistance	-	12	-	-	-	-	-	-
Nonexpendable Trusts								
Coal Tax Trust	-	588	7	9,976	-	44,602	551	-
Land Grants	-	-	414	5,714	1,268	41,578	-	-
Resource Indemnity	-	-	-	1,198	-	7,318	-	-
Parks Trust	-	-	-	167	-	1,007	-	-
Cultural Trust	-	-	-	249	-	499	-	3,913
Real Property	-	-	8	79	-	477	-	-
Noxious Weed Management	-	-	-	80	-	382	-	-
Thomas Teakle Trust	-	-	-	-	-	4	-	-
Pension Trusts								
PERS	-	-	474	70	-	-	-	-
Municipal Police	-	-	4,940	29	-	-	-	-
Firefighters Unified	-	-	4,644	23	-	-	-	-
Sheriffs	-	-	-	20	-	-	-	-
Highway Patrol	-	-	49	12	-	-	-	-
Judges	-	-	67	2	-	-	-	-
Game Wardens	-	-	-	5	-	-	-	-
Volunteer Firefighters	-	-	-	20	-	-	-	-
Agency								
Investment Pool	-	-	-	125	-	-	-	-
Employees Deferred Comp.	-	440	-	243	-	-	-	-
Performance Deposits	31	-	8	315	-	-	-	-
Central Payroll	-	-	24,882	164	-	-	-	-
Custodial Accounts	-	-	18	-	-	-	-	-
Unissued Warrants	-	-	100	2,052	-	-	-	-
Child Support Collections	-	-	39	639	-	-	-	-
Unclaimed Property	-	-	2	-	-	-	-	-
Intergovernmental	-	-	259	12	-	-	-	-
A & E Advances	-	-	1	7	-	-	-	-
Uncleared Collections	-	-	37	821	-	-	-	-
Debt Collection	-	-	2	145	-	-	-	-
COMPONENT UNITS								
Enterprise Funds								
State Comp. Insurance - New	-	-	1845	-	-	-	-	90,690
State Comp. Insurance - Old	-	-	39	1,818	-	-	90,690*	-
Pension Trusts								
Teachers Retirement System	-	6,500	850	-	-	-	-	-
Higher Education								
Current Funds								
General Operating	800	-	5,061	5,973	939	560	-	-
Designated	3,275	29	6,342	2,458	3,211	3,549	5	-
Auxiliary	9	225	636	1,236	515	9,717	52	-
Restricted	-	3,809	307	5,483	248	236	-	5
Fiduciary								
Student Loans	-	-	38	169	-	11	-	-
Endowments	-	-	17	38	190	2	-	-
Agency	-	-	4,277	1,817	-	-	-	-
Plant								
Unexpended	-	340	930	395	9,540	11,599	-	19
Renewal & Replacement	253	205	568	481	7,905	1,859	-	-
Retirement of Indebtedness	405	-	974	293	15,900	9,482	-	33
Investment in Plant	-	135	-	-	-	-	-	-
Totals	$ 78,780	$ 78,780	$112,173	$112,173	$260,439	$260,439	$102,268	$102,268

*These Residual Equity Transfers are reflected in Contributed Capital on the Balance Sheet.

Between Primary Government and Component Units	Due From Comp. Units	Due To Primary Govt	Due To Comp. Units	Due From Primary Govt	Transfer To Comp. Unit	Transfer From Primary Govt
General	$ 293	$ -	$ 217	$ -	$100,784	-
Special Revenue						
State	72	-	531	-	13,849	-
Federal	8	-	397	-	-	-
Debt Service						
Long Range Building	19	-	15	-	-	-
Energy Bonds	2	-	-	-	-	-
Capital Projects						
Long Range Building	-	-	14	-	-	-
Enterprise						
Economic Development Bonds	1	-	-	-	-	-
State Lottery	-	-	1	-	-	-
Prison Industries	16	-	-	-	-	-
Secretary of State Business Srv.	-	-	1	-	-	-
Historical Society Publications	-	-	2	-	-	-
Surplus Property	-	-	1	-	-	-
Internal Service						
ISD	176	-	18	-	-	-
MUS Group Insurance	823	-	20	-	-	-
Administration Insurance	-	-	4	-	-	-
FWP Equipment	2	-	-	-	-	-
Administration Supply	18	-	-	-	-	-
Publications & Graphics	22	-	-	-	-	-
Labor Central Services	-	-	1	-	-	-
Commerce Central Services	7	-	2	-	-	-
DEQ Indirect Cost Pool	1	-	-	-	-	-
Mail & Messenger	2	-	-	-	-	-
Warrant Processing	18	-	-	-	-	-
Investment Division	20	-	1	-	-	-
Justice Legal	2	-	-	-	-	-
Records Management	4	-	-	-	-	-
Nonexpendable Trusts						
Land Grants	-	-	277	-	1,740	-
Pension Trusts						
PERS	422	-	-	-	-	-
Agency						
Employees Defer. Comp.	75	-	2	-	-	-
Land Grant Interest	-	-	1	-	-	-
Performance Deposits	-	-	2	-	-	-
Central Payroll	849	-	-	-	-	-
Child Support Collections	6	-	-	-	-	-
A & E Advances	1	-	2	-	-	-
Uncleared Collections	4	-	1	-	-	-
Debt Collection	-	-	9	-	-	-
COMPONENT UNITS						
Enterprise Funds						
Housing Authority	-	41	-	1	-	-
Health Facilities Authority	-	8	-	-	-	-
State Compensation Ins. - New	-	620	-	13	-	-
State Compensation Ins. - Old	-	6	-	171	-	-
Pension Trusts						
Teachers Retirement System	-	40	-	-	-	-
Higher Education						
Current Funds						
General Operating	-	450	-	12	-	114,585
Designated	-	1,330	-	123	-	-
Auxiliary	-	19	-	37	-	214
Restricted	-	33	-	872	-	-
Fiduciary						
Student Loans	-	-	-	4	-	-
Agency	-	306	-	39	-	-
Plant						
Unexpended	-	6	-	110	-	723
Renewal and Replacement	-	4	-	4	-	27
Retirement of Debt	-	-	-	133	-	824
Totals	$ 2,863	$ 2,863	$ 1,519	$ 1,519	$116,373	$116,373

14. FUND DEFICITS

The following funds have a deficit fund balance/retained earnings found on the operating statements for June 30, 1997, (in thousands):

	Deficit
Primary Government	
Enterprise Fund	
West Yellowstone Airport	$ (674)
Department of Agriculture	(177)
Internal Service Fund	
Administration Insurance	(5,522)
Payroll Processing	(74)
Justice Legal	(157)
Records Management	(33)
Administration - Legal	(9)
Local Government Admin	(36)
Total Fund Deficits - Primary Government	$ (6,682)
Component Units	
Proprietary Fund Type	
State Comp. Ins. (Old Fund)	$ (273,850)
Higher Education Funds	
General Operating Subfund	(22,235)
Total Fund Deficits - Component Units	$ (296,085)

The deficit retained earnings in the Administration Insurance Fund and the State Compensation Insurance-Old Fund are due to recording the expense for estimated claims including claims incurred but not reported. Refer to Note 9 for further discussion of these funds. The deficit fund balance in the General Operating Subfund is due to the expense associated with the recording of compensated absences.

15. RESERVED FUND BALANCES FOR TRUSTS

The Special Revenue trust reserved fund balance is attributed to the Fish, Wildlife and Parks Wildlife Mitigation Trust Fund and the Department of Environmental Quality Reclamation - OSM Trust Fund.

The Coal Tax Trust reserved fund balance in the Nonexpendable Trust Fund consists of the following (in thousands): Permanent Coal Tax Trust $545,993, Treasure State Endowment Fund $42,263 and the School Bond Contingency Fund $2,178. All other Nonexpendable Trust Fund balances, $492,843, are Reserved for Trust Principal.

16. SEGMENT INFORMATION

Selected financial information concerning all enterprise operations for the fiscal year ended June 30, 1997, is as follows (in thousands):

	Economic Development Bonds	Liquor Stores	Hail Insurance	State Lottery	Other Enterprise*	Total Enterprise
Operating Revenues:						
Charges for Services	$ 70	$ 36,037	$ -	$ 28,293	$ 9,125	$ 73,525
Investment Earnings	629	-	286	212	379	1,506
Financing Income	2,364	-	-	-	-	2,364
Contributions/Premiums	-	-	2,271	-	2,551	4,822
Grants/Contracts/Donations	-	-	-	-	21	21
Taxes	-	10,130	-	-	-	10,130
Other Revenues	1	47	143	8	6,222	6,421
Operating Expenses:						
Depreciation	4	24	2	97	469	596
Amortization	-	-	-	-	7	7
Other	2,651	30,845	2,004	21,807	15,845	73,152
Operating Income (Loss)	409	15,345	694	6,609	1,977	25,034
Nonoperating Revenues (Expenses)	-	(59)	-	(6)	475	410
Oper. Trans. In (Out)	-	(15,169)	(43)	(6,603)	85	(21,730)
Net Income (Loss)	$ 409	$ 117	$ 651	$ -	$ 2,537	$ 3,714
Current Assets	$ 5,258	$ 11,828	$ 4,465	$ 3,688	$ 15,817	$ 41,056
Current Liabilities	(1,124)	(10,731)	(2,018)	(5,417)	(1,069)	(20,359)
Net Working Capital	$ 4,134	$ 1,097	$ 2,447	$ (1,729)	$ 14,748	$ 20,697

	Economic Development Bonds	Liquor Stores	Hail Insurance	State Lottery	Other Enterprise*	Total Enterprise
Total Assets	$ 52,216	$ 13,043	$ 10,657	$ 5,866	$ 27,617	$109,399
Total Liabilities	49,650	10,812	5,174	5,627	5,628	76,891
Fund Equity	$ 2,566	$ 2,231	$ 5,483	$ 239	$ 21,989	$ 32,508
Long-Term Obligations	$ 48,526	$ 81	$ 3,156	$ 210	$ 4,559	$ 56,532
Cur. Yr. Capital Cont.	$ -	$ -	$ -	$ -	$ 422	$ 422
Acquisition of Fixed Assets	$ 9	$ 203	$ 7	$ 52	$ 337	$ 608
Disposal of Fixed Assets	$ 5	$ 72	$ 3	$ 41	$ 509	$ 630

1. The Economic Development Bond Program, administered by the Board of Investments, assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

2. The Liquor Division of the Department of Revenue administers the State liquor operations (Liquor Stores). This fund accounts for liquor licensing activities and the sale and distribution of alcoholic beverages.

3. The Hail Insurance Fund provides benefit payments to producers for crop acreage insured and accounts for premium assessments paid (See Note 9).

4. The State Lottery accounts for the operations of Montana's lottery which began in June 1987. Included in Other Assets is $1,846,000 which is not a current asset.

* Other Enterprise is composed of the following funds (listed by administering agency):

Department of Agriculture
Department of Agriculture

Department of Commerce
Local Government Audits

Department of Transportation
West Yellowstone Airport

Secretary of State
Business Services

Montana Historical Society
Historical Society Publications

Department of Labor and Industry
Montana Career Info. System
Subsequent Injury
Uninsured Employers

Department of Corrections
Prison Ranch\ Industries
Women's Prison Industries
Swan River Vocational Training

Department of Administration
Surplus Property
Flexible Spending
Deferred Compensation Admin.

17. CONTRIBUTED CAPITAL

During fiscal year 1997, contributed capital changed by the following amounts (in thousands):

	PRIMARY GOVERNMENT		COMPONENT UNITS
	Enterprise Fund	Internal Service Fund	Proprietary Fund Type
Beginning Balance - July 1, 1996	$ 4,592	$ 6,578	$ 11,599
Additions:			
Contributed Capital Transfers-in	2,211	1,986	97,716
Deletions:			
Contributed Capital Transfers-out	(1,789)	(2,795)	(18,647)
Ending Balance - June 30, 1997	$ 5,014	$ 5,769	$ 90,668

18. NONEXPENDABLE TRUST FUNDS' INVESTMENT INCOME

Investments are recorded in Nonexpendable Trust Funds using the accrual basis of accounting. However, certain investment earnings attributable to these trusts are transferred elsewhere, as summarized below:

Nonexpendable Trust Fund	Reporting of Investment Earnings
Coal Tax Trust	Permanent Trust Accounting Entities - Investment Earnings are distributed to the General Fund. Treasure State Endowment Accounting Entity - A specified amount may be transferred monthly to the State Special Revenue Fund to cover administrative costs, grants, and loans to local governments for infrastructure projects. In 1997, transfers of $2,657,546 were made.
Land Grants	Ninety-four percent of investment earnings are transferred to the General Fund for the Office of Public Instruction to distribute to public schools; the remaining six percent is distributed to the Higher Education Units, Department of Administration, Department of Corrections, Department of Public Health and Human Services and School for the Deaf and Blind.
Resource Indemnity	Resource Indemnity Tax investment earnings are distributed to the State Special Revenue Fund as follows: At the beginning of each biennium, $175,000 to the Environmental Contingency Account; $50,000 to the Oil and Gas Damage Mitigation Account; $2,000,000 to the Renewable Resource Loan and Grant Account; $3,000,000 to the Reclamation and Development Grant Account; $500,000 to the Water Storage Account; and every fiscal year $240,000 to the Renewable Resource Loan and Grant Account; and the remaining investment earnings are distributed thirty-six percent to the Renewable Resource Loan and Grant Account; eighteen percent to the Hazardous Waste/Comprehensive Environmental Response, Compensation, and Liability Act Account; forty percent to the Reclamation and Development Grant Account; and six percent to the Environmental Quality Protection Account. The beginning of a biennium is the even numbered fiscal year; therefore, the fixed amounts noted above were not distributed.
Parks Trust	Investment earnings are distributed to the State Special Revenue Fund for the maintenance of parks by the Department of Fish, Wildlife and Parks.
Cultural Trust	Investment earnings are distributed to the State Special Revenue Fund for cultural and aesthetic projects administered by the Montana Arts Council.
Real Property	Investment earnings are transferred to the State Special Revenue Fund for use by the Department of Fish, Wildlife and Parks to operate, maintain and develop its real property.
Noxious Weed Management	Investment earnings are transferred to the State Special Revenue Fund for noxious weed management projects.
Moore Sipple Connector	Investment earnings are distributed quarterly to the Central Montana Rail Company for use in its operation.
Thomas Teakle	Investment earnings are transferred to the State Special Revenue Fund for the Montana Historical Society's library acquisitions.

19. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 55.1% of the Regents' outstanding loan volume or $274,700,000 is held by MHESAC. Lewis & Clark County owns the building which houses the staff of the Board of Regents and the Office of the Commissioner of Higher Education (OCHE). Upon satisfaction of the financing obligations, MHESAC has the option to purchase the building. OCHE pays MHESAC for its share of various costs such as personnel costs for employees of MHESAC who perform services that are of direct benefit to the State; equipment leases; computer maintenance costs; utilities and other shared operating expenses. The total amount of these expenses for fiscal year 1997 amounted to $408,292. MHESAC employees are allowed to participate in the University System group insurance plan; MHESAC also reimburses OCHE for services such as telephones, postage and computer supplies. During fiscal year 1997 MHESAC paid OCHE a total of $451,626.

There is a foundation affiliated with each university and college unit which solicits contributions and manages those funds for the benefit of that unit. Although each foundation is a separate legal entity; each unit exercises significant influence over its affiliated foundation. The units generally provide the foundations with office space, some staff and related office expenses and an annually contracted fee. The units paid their foundations approximately $1,508,517 in fiscal year 1997, including $952,875 in prepaid lease payments through the year 2002 from Montana State University-Billings to its foundation. In return the universities received from their foundations approximately $12,363,272 during fiscal year 1997 for scholarships and academic/institutional support. In addition to support from their affiliated foundation, the University of Montana-Missoula, Montana State University-Bozeman and Montana State University-Billings received a total of $1,841,336 from their related athletic associations/booster organizations and affiliated museums and public broadcasting radio stations.

20. CONTINGENCIES

A. **Litigation** - The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

The Crow Tribe filed suit in 1978 in federal district court seeking a declaration that Montana's coal severance and gross proceeds taxes are invalid as applied to the production of coal on the Crow Reservation and to the production of coal owned by the Tribe located in an off-reservation area, known as the "Crow ceded area" or "ceded strip", which lies roughly between the northern boundary of the reservation and the Yellowstone River. The amount of coal reserves falling within these categories has not been precisely determined. The taxes were alleged to be invalid under a variety of theories, of which the most prominent were that the state taxes conflict with federal policy by preventing the marketing of Crow coal and infringe on tribal sovereignty by depriving the Tribe of revenue needed to provide governmental services to the Crow people. In addition to a declaration that the taxes were invalid, the Tribe sought restitution for an amount equal to the severance and gross proceeds taxes paid by Westmoreland Resources, Inc. (Westmoreland), the only company currently mining coal claimed by the Tribe, together with the interest which accrued to the Coal Severance Tax Trust Fund on the amount of taxes paid.

In January 1983, the court ordered Westmoreland's future severance tax payments placed in escrow pending the outcome of the litigation. The State has received no severance tax payments from Westmoreland with respect to the coal mined on the ceded strip since the entry of this order. Prior to 1983, Westmoreland's annual severance tax payments varied from a low of $5.407 million in 1976 to a high of $7.078 million in 1979.

In June 1987, the Ninth Circuit Court of Appeals ruled that Montana is preempted from applying its severance and gross proceeds taxes on coal within the ceded strip held in trust for the Crow Tribe and on coal mined on the reservation. In August 1987, the State docketed an appeal of the decision to the United States Supreme Court, and in January 1988, that Court summarily affirmed the Court of Appeals' judgment.

As a result of the Supreme Court's affirmance, two principal issues remained in the case, one of which has been resolved. The first issue involved the appropriate disposition of the escrowed monies, to which the State disclaimed any interest after the Supreme Court's decision. The district court concluded in September 1988 that these monies should be paid to the United States in trust for the Tribe. The escrowed funds totaling $30.1 million were distributed in May 1989 to the United States.

The second issue involved tax monies paid by Westmoreland to the State but not escrowed. Their amount, exclusive of interest, is approximately $46.8 million in severance taxes and $11.4 million in gross proceeds taxes. The Tribe and the United States, which had intervened on the Tribe's behalf in 1983, claimed those taxes under a restitution theory. They additionally sought prejudgement interest on the tax amounts which, as of March 31, 1994, was estimated at $214.1 million for the severance tax and $40.7 million on the gross proceeds tax. Trial on their claim was held in April and May 1994, and in November 1994, the district court ruled in the State's favor. In August 1996, however, a three-judge panel of the Ninth Circuit Court of Appeals reversed the District Court's ruling and ordered restitution of the coal severance taxes. It also remanded the matter for determination of whether the Tribe and the United States were entitled to prejudgment interest and if so, the amount of such interest. As of June 30, 1996, the estimated amount of prejudgment interest, using the Tribe and United States' method of calculation, was approximately $320.27 million with respect to the severance taxes and $64.4 million with respect to the gross proceeds taxes.

In September 1996 the State filed a petition for rehearing with a suggestion for rehearing en banc directed at that portion of the Court of Appeals' August opinion awarding restitution of the severance and gross proceeds taxes to the Tribe and the United States. In October 1996 the court modified the opinion to refer to one issue raised in the State's petition and then denied the petition in February 1997. The State filed a petition for writ of certiorari with the United States Supreme Court in May 1997, and the Court granted the petition on October 14, 1997. A decision on the restitution claim is anticipated by late June or early July 1998.

The Tribe and the United States additionally sought leave in April 1993 to amend their complaints before the District Court for the purpose of alleging damages in connection with loss of possible production under a coal lease with Shell Oil Company. They estimated those damages alternatively at $327.1 million and $250.4 million as of March 31, 1994. The district court denied the requested amendment in July 1993 and again in February 1994. The court, however, addressed that claim in its November 1994 decision and rejected it. The Tribe and the United States raised that aspect of the court's decision in the appeal before the Ninth Circuit discussed in the previous paragraph. In its August 1996 opinion, the Court of Appeals affirmed the District Court's denial of this claim. The Tribe petitioned the Court of Appeals' panel for rehearing on this issue, but its petition was denied in November 1996. In June 1997 the Tribe filed a conditional cross-petition for writ of certiorari before the United States Supreme Court in connection with the Shell claim. The United States did not seek review of the Court of Appeals' decision as to the Shell claim. On October 6, 1997, the Supreme Court denied the Tribe's cross-petition. The Ninth Circuit's ruling as to this claim is, therefore, final.

B. **Federal Contingencies:**

Federal Financial Assistance - The State receives federal financial assistance for specified purposes which are subject to review and audit in accordance with the Single Audit Act of 1984. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 1997.

USDA Commodities - In fiscal year 1997, the State distributed $5,406,373 in commodities. The value at June 30, 1997, of commodities stored in the State's warehouses is $1,774,829 for which the State is liable in the event of loss.

Social Security - The Social Security Administration (SSA) has assessed the State for the alleged failure to withhold and forward social security contributions for part-time employees for the years 1984 through 1986. In January 1996, a final administrative decision was made against the State and local governments establishing a preliminary assessment of $2.16 million plus simple interest of 6 per cent per annum. Of the principal amount, $720,000 plus interest of approximately $1.0 million is estimated to be the initial liability of the State; the balance of the amount owing is the initial responsibility of various political subdivisions. The portion of that amount that the State might have to pay because of the current nonexistence of some of those political subdivisions, should not be substantial, and this cost would be covered by the Social Security Agency Fund administered by the Public Employees' Retirement Division.

C. Miscellaneous Contingencies:

Commitment fees - The Board of Investments (BOI) and the Montana Health Facility Authority (MHFA) have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 1997, is $30,330,000.

The BOI has issued INTERCAP bonds backed by commitments from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 1997, is $42,890,555.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 1997, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	Special Revenue	Debt Service	Nonexpendable Trust
Corporation	$ 5,250	$ -	$ 317	$ -
Coal Severance	11,588	3,616	5,601	22,448
Oil & Gas	4,168	-	-	-
Resource Indemnity	-	518	-	439
Totals	$ 21,006	$ 4,134	$ 5,918	$ 22,887

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed 100% to the General Fund.

21. SUBSEQUENT EVENTS

On September 22, 1997, the State issued $110,700,000 of Tax and Revenue Anticipation Notes, Series, 1997, due June 30, 1998. The proceeds of the Notes provide cash to support expenditures from the general fund, pending the receipt of taxes and revenues, for the fiscal year ending June 30, 1998.

On September 30, 1997, the State issued $12,640,000 of General Obligation Bonds, Series 1997B (Long Range Building Program) for building construction and the purchase of Virginia City/Nevada City.

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State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1997

CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
Department of Agriculture		
	Agricultural Research Service	
10.000	Feasibility Study - Bio Science Research	$47,446
10.001	Agricultural Research: Basic & Applied Research	517,874
	Animal and Plant Health Inspection Service	
10.025	Plant & Animal Disease, Pest Control, & Animal Care	178,793
	Natural Resources Conservation Service	
10.063	Agricultural Conservation Program	623
10.901	Resource Conservation And Development	50,964
10.902	Soil & Water Conservation	15,314
10.903	Soil Survey	16,062
	Agricultural Marketing Service	
10.156	Federal-State Marketing Improvement Program	
	Passed through from WUSATA	200
10.162	AMS-Inspection Grading and Standardization	21,905
	Cooperative State Research, Education, and Extension Service	
10.200	Grants For Agricultural Research, Special Research Grants	1,936,918
	Passed through from Michigan State University	391
	Passed through from Oregon State University	26,889
	Passed through from University of Idaho	(12)
	Passed through from University of Wyoming	15,143
	Passed through from Washington State University	37,563
10.202	Cooperative Forestry Research	188,283
10.203	Payments To Agricultural Experiment Stations Under Hatch Act	1,922,587
10.205	Payments To 1890 Land-Grant Colleges & Tuskegee University	150,000
10.206	Grants For Agricultural Research: Competitive Research Grants	980,717
10.207	Animal Health & Disease Research	3,067
10.215	Sustainable Agriculture Research and Education	
	Passed through from Utah State University	15,421
10.217	Higher Education Challenge Grants	42,175
10.500	Cooperative Extension Service	3,753,584
	Passed through from University of Wisconsin	459
	Passed through from Utah State University	11,980
	Economic Research Service	
10.250	Agricultural & Rural Economic Research	242,607
	Passed through from North Dakota State University	31,218
	Farm Service Agency	
10.450	Crop Insurance	
	Passed through from University of North Carolina	2,042
	Food Safety and Inspection Service	
10.475	Cooperative Agreements with States for Meat and Poultry Inspection	328,266
	Food and Consumer Service	
10.550	Food Distribution	2,220,146
10.551	Food Stamps	56,594,595
10.553	School Breakfast Program	2,240,901

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CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
10.555	National School Lunch Program	13,388,897
10.556	Special Milk Program For Children	59,829
10.557	Special Supplemental Food Program for Women, Infants, and Children	9,936,358
10.558	Child and Adult Care Food Program	8,671,129
10.559	Summer Food Service Program for Children	485,639
10.560	State Administrative Expenses for Child Nutrition	428,779
10.561	State Administrative Matching Grants for Food Stamp Program	5,400,891
10.564	Nutrition Education and Training Program	182,005
10.567	Food Distribution Programs on Indian Reservations	4,228,518
10.568	Emergency Food Assistance (Administrative Costs)	189,997
10.569	Emergency Food Assistance (Food Commodities)	10,375
10.570	Nutrition Program for the Elderly (Commodities)	1,003,354
10.571	Food Commodities for Soup Kitchens	303,080
	Forest Service	
10.652	Forestry Research	1,812,724
10.664	Cooperative Forestry Assistance	888,909
10.665	Schools & Roads-Grants To States	9,386,969
10.699	Other Miscellaneous Non-Major Grants	34,009
	Foreign Agricultural Service	
10.961	International Agricultural Research Program	27,948
	Miscellaneous	
10.999	Other Miscellaneous Non-Major Grants	597,229
	Passed through from Virginia State University	20,497
	Total for Agency	**$128,651,257**
Department of Commerce		
	Economic Development Administration	
11.300	Economic Development: Grants For Public Works & Infrastructure Development	$110,434
11.307	Special Economic Development and Adjustment Assistance Program	17,541
	National Oceanic and Atmospheric Administration	
11.446	Antarctic Marine Living Resources	43,464
	Passed through from Antarctic Ecosystem Research Group	92,032
	National Telecommunications and Information Administration	
11.550	NTIA	415,169
11.552	Telecommunications & Information Infrastructure Assistance	485,621
	National Institute for Standards and Technology	
11.611	Manufacturing Extension Partnership	(2,046)
	Minority Business Development Agency	
11.800	Minority Business Development Centers	
	Passed through from American Indian Higher Education	10,302
	Total for Agency	**$1,172,517**

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CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
	Department of Defense	
	Department of the Army, Office of the Chief of Engineers	
12.106	Flood Control Projects	$17,281
12.107	Navigation Projects	32,366
12.113	State Memorandum of Agreement-Program For Reimbursement	93,857
12.114	Collaborative Research & Development	358,802
	Department of the Navy, Office of the Chief of Naval Research	
12.300	Basic & Applied Scientific Research	113,043
	National Guard Bureau	
12.400	Military Construction, National Guard	186,744
12.401	National Guard Military Operations and Maintenance Projects	4,857,406
	U.S. Army Materiel Command	
12.431	Basic Scientific Research	931,038
	Office of the Secretary of Defense	
12.630	Basic, Applied, & Advanced Research	429,273
	Department of the Air Force, Materiel Command	
12.800	Air Force Defense Research Sciences Program	298,414
	Passed through from Laser Phontonic Technology	11,906
	Advanced Research Projects Agency	
12.910	Research And Technology Development	116,408
12.911	Defense Technology Conversion, Reinvestment and Transition Assistance	22,378
	Miscellaneous	
12.999	Other Miscellaneous Non-Major Grants	345,598
	Total for Agency	$7,814,514
	Department of Housing and Urban Development	
	Community Planning and Development	
14.228	Community Development Block Grant/State's Program	$8,613,415
14.231	Emergency Shelter Grants Program	167,893
14.239	HOME Investment Partnership Program	1,924,654
	Office of Fair Housing and Equal Opportunity	
14.401	Fair Housing Assistance Program-State And Local	355,597
	Public and Indian Housing	
14.855	Section 8 Rental Voucher Program	2,178,919
14.856	Lower Income Housing Assistance Program	3,769,478
14.857	Section 8 Rental Certificate Program	7,582,246
	Miscellaneous	
14.999	Other Miscellaneous Non-Major Grants	62,720
	Total for Agency	$24,654,922

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CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
Department of the Interior		
	Bureau of Indian Affairs	
15.114	Indian Education: Higher Education Grant Program	$30,093
	Passed through from Northern Cheyenne Agency	11,156
15.130	Indian Education: Assistance To Schools	32,290
15.143	Training And Technical Assistance-Indian Tribal Governments	34,738
15.199	Tongue River - Northern Cheyenne Tribal Loan	12,659,993
	Bureau of Land Management	
15.219	Wildlife Habitat Management Technical Assistance	82,867
15.221	Cooperative Agreements for Research in Public Lands Management	6,191
15.223	Recreation and Cultural Resource Management	4,697
15.224	Cultural Resource Management	32,319
	Passed through from West Central Environmental Council	2,808
15.225	Recreation Resource Management	31,948
	Office of Surface Mining Reclamation and Enforcement	
15.250	Regulation Of Surface Coal Mining And Surface Effects Of Underground Coal Mining	887,378
15.252	Abandoned Mine Land Reclamation Program	7,176,119
15.299	Other Miscellaneous Non-Major Grants	460,206
	Bureau of Reclamation	
15.502	Irrigation System Rehabilitation & Betterment	38,191
15.503	Small Reclamation Projects	26,781
	U.S. Fish and Wildlife Service	
15.600	Anadromous Fish Conservation	
	Passed through from Oregon Department of Fish and Wildlife	7,492
15.604	Fishery Research - Information	5,384
15.605	Sport Fish Restoration	4,063,133
15.608	Fish & Wildlife Management Assistance	669,816
15.610	Wildlife Research Information	10,464
15.611	Wildlife Restoration	5,611,275
15.612	Endangered Species Section 6	171,381
15.614	Coastal Wetlands Planning, Protection & Restoration Act	3,522
15.616	Clean Vessel Act	(4,849)
15.617	Wildlife Conservation and Appreciation	
	Passed through from Native American Fish and Wildlife	17,341
15.618	Administrative Grants For Federal Aid In Sport Fish And Wildlife Restoration	146,515
15.699	Other Miscellaneous Non-Major Grants	299,263
	Passed through from Ennis Fish Hatchery	1,633
	Geological Survey	
15.804	Water Resources Investigation	
	Passed through from Montana Water Resources	9,334
15.805	Assistance To State Water Resources Research Institutes	216,845
15.806	National Water Resources Research Program	11,820
15.807	Earthquake Hazards Reduction Program	19,811
15.808	Geological Survey Research And Data Acquisition	339,411
	Passed through from the University of Minnesota	15,077
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	14,207
15.975	Research Information	322,235
15.976	Migratory Bird Banding And Data Analysis	110

State of Montana
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CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
15.977	State Partnerships	6,252
	National Park Service	
15.904	Historic Preservation Fund Grants-In-Aid	495,351
15.910	National Natural Landmarks Program	4,328
15.912	National Historic Landmark	170,150
15.915	Technical Preservation Services	191,804
15.916	Outdoor Recreation-Acquisition, Development and Planning	367,920
15.921	Rivers, Trails And Conservation Assistance	30,997
	Miscellaneous	
15.999	Other Miscellaneous Grants	20,045,608
	Passed through from the University of Minnesota	20,995
	Total for Agency	**$54,802,400**
Department of Justice		
	Drug Enforcement Administration	
16.001	Law Enforcement Assistance-Narcotics and Dangerous Drugs-Laboratory Analysis	$81,369
	Office of Juvenile Justice and Delinquency Prevention	
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	605,235
16.546	Title V Delinquency Prevention	100,000
16.549	Part E State Challenge Activities	87,500
16.726	Juvenile Mentoring Program	108,900
	Bureau of Justice Statistics	
16.550	Criminal Justice Statistics Development	50,000
	National Institute of Justice	
16.560	Justice Research Development and Evaluation Projects Grants	150,000
	Bureau of Justice Assistance	
16.572	State Criminal Alien Assistance Program	28,402
16.575	Crime Victim Assistance	576,000
16.576	Crime Victim Compensation	250,000
16.579	Drug Control and System Improvement--Formula Grant	2,463,673
16.580	Edward Byrne Memorial State and Local Law Enforcement Program	150,000
16.582	Crime Victim Assistance/Discretionary Grants	70,000
16.588	Violence Against Women Formula Grants	804,505
16.592	Local Law Enforcement Block Grants Program	169,740
16.593	Residential Substance Abuse Treatment for State Prisoners	123,964
	Office of Community Oriented Policing Services	
16.711	Troops to COPS	45,619
16.727	Criminal History Record Improvement	26,986
	Miscellaneous	
16.999	Other Miscellaneous Non-Major Grants	3,766
	Total for Agency	**$5,895,659**

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CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
Department of Labor		
	Bureau of Labor Statistics	
17.002	Labor Force Statistics	$616,250
17.005	Compensation And Working Conditions Data	47,650
	Employment and Training Administration	
17.203	Labor Certification For Alien Workers	183,003
17.207	Employment Service	5,865,605
17.225	Unemployment Insurance	11,782,375
17.245	Trade Adjustment Assistance - Workers	2,444,116
17.246	Employment & Training Assistance-Dislocated Workers	2,967,451
17.248	Employment & Training Research And Development Projects	40,000
	Passed through from the State of Rhode Island	3,305
17.249	Employment Services And Job Training-Pilot And Demonstration Programs	454,652
17.250	Job Training Partnership Act	5,148,967
	Passed through from Montana Job Training Partnership Incorporated	1,248,348
	Occupational Safety and Health Administration	
17.504	Consultation Agreements	180,912
	Mine Safety and Health Administration	
17.600	Mine Health And Safety Grants	97,014
	Office of the Secretary, Women's Bureau	
17.700	Women's Special Employment Assistance	8,146
	Office of the Assistant Secretary for Veterans' Employment and Training	
17.801	Disabled Veterans Outreach Program	248,680
17.802	Veterans Employment Program	23,123
17.804	Local Veterans' Employment Representative Program	531,997
	Miscellaneous	
17.999	Other Miscellaneous Non-Major Grants	108,373
	Total for Agency	**$31,999,967**
Department of State		
19.999	Other Miscellaneous Non-Major Grants	$87,945
	Total for Agency	**$87,945**
Department of Transportation		
	United States Coast Guard	
20.005	Boating Safety Financial Assistance	$190,589
	Federal Aviation Administration	
20.106	Airport Improvement Program	72,450
	Federal Highway Administration	
20.205	Highway Planning & Construction	159,554,228

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CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
20.215	Highway Training & Education	161,670
	Passed through from Lockheed Martin	26,629
20.218	Motor Carrier Safety Assistance Program	641,008
20.219	National Recreational Trails Funding Program	81,378
	Federal Railroad Administration	
20.308	Local Rail Freight Assistance	36,703
	Federal Transit Administration	
20.505	Federal Transit Technical Studies Grants	163,193
20.507	Federal Transit Capital and Operating Assistance Formula Grants	1,092,103
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	279,781
	National Highway Traffic Safety Administration	
20.600	State & Community Highway Safety	1,763,988
	Research and Special Programs Administration	
20.700	Pipeline Safety	27,303
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	69,128
	Total for Agency	**$164,160,151**
Department of the Treasury		
21.999	Other Miscellaneous Non-Major Grants	$742,288
	Total for Agency	**$742,288**
Equal Employment Opportunity Commission		
30.002	Employment Discrimination-State and Local Fair Employment Practices	$102,609
	Total for Agency	**$102,609**
General Services Administration		
39.003	Donation Of Federal Surplus Personal Property	$2,231,817
	Total for Agency	**$2,231,817**
National Aeronautics and Space Administration		
43.001	Aerospace Education Services Program	$2,252,456
	Passed through from Krug Life Science Inc.	29,425
	Passed through from Lockheed Missiles and Space Company	106,207
43.002	Technology Transfer	157,841
	Passed through from Research Development Institute	698,385
43.999	Other Miscellaneous Non-Major Grants	267,171
	Passed through from University of North Dakota	22,046
	Total for Agency	**$3,533,531**

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CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
	National Foundation on the Arts and the Humanities	
	National Endowment for the Arts	
45.003	Promotion Of The Arts-Arts In Education	$30,000
45.007	Promotion Of The Arts-State And Regional Programs	315,546
45.011	Promotion Of The Arts-Presenting	20,000
45.015	Promotion Of The Arts-Folk Arts	6,356
45.022	Promotion Of The Arts-Advancement Grants	272
45.023	Promotion Of The Arts-Local Arts	4,252
	National Endowment for the Humanities	
45.113	Promotion of the Humanities-Special Projects	
	Passed through from Montana Committee for the Humanities	1,851
45.127	Promotion of the Humanities-Elementary and Secondary Education	5,573
45.129	Promotion of the Humanities-Federal/State Partnership	
	Passed through from Montana Committee for the Humanities	25,637
45.162	Promotion of the Humanities-Education Development and Demonstration	3,730
45.199	Other Miscellaneous Non-Major Grants	5,395
	Institute of Museum Services	
45.301	Institute of Museum and Library Services	38,359
	Total for Agency	**$456,971**
	National Science Foundation	
47.000	Career Program	$61,263
47.041	Engineering Grants	662,983
47.049	Mathematical & Physical Sciences	2,684,890
	Passed through from Montana Council of Teachers of Math	170,335
	Passed through from University of Georgia	685
	Passed through from Woods Hole Ocean Institute	28,672
47.050	Geosciences	154,274
47.051	Biological, Behavioral, and Social Sciences	9,210
47.053	Scientific, Technological, and International Affairs	33,133
47.066	Teacher Preparation and Enhancement	442,401
47.070	Computer and Information Science and Engineering	(5,984)
47.073	Science And Technology Centers	1,412,137
47.074	Biological Sciences	1,621,522
	Passed through from California State University - Monterey Bay	7,217
	Passed through from Salish Kootenai College	5,625
	Passed through from Temple University	260
	Passed through from University of California - Santa Barbara	50,424
	Passed through from University of Tennessee	2,526
47.075	Social, Behavior, And Economic Sciences	62,055
47.076	Education And Human Resources	3,601,515
	Passed through from Montana Council of Teachers of Math	216,099
47.077	Academic Research Facilities and Instrumentation	299,030
	Passed through from Salish Kootenai College	83,312
47.999	Other Miscellaneous Non-Major Grants	9,837
	Passed through from Desert Research Institute	87,935
	Total for Agency	**$11,701,356**

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CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
Small Business Administration		
59.000	Small Business Administration - Technical Assistance Grant	$30,067
59.005	Business Development Assistance to Small Business	251
59.007	National American Outreach & Development	19,997
59.037	Small Business Development Center	366,437
	Total for Agency	$416,752
Department of Veterans Affairs		
	Veterans Health Administration	
64.005	Grants to States for Construction of State Home Facilities	$7,306
64.014	Veteran's State Domiciliary Care	142,920
64.015	Veteran's State Nursing Home Care	1,806,407
	Veterans Benefits Administration	
64.124	All Volunteer Force Educational Assistance	67,176
64.199	Other Miscellaneous Non-Major Grants	2,839
	Total for Agency	$2,026,648
Environmental Protection Agency		
	Office of Air and Radiation	
66.SSI	Pollution Prevention Grants	$99,764
66.001	Air Pollution Control Program Support	230,954
66.032	State Indoor Radon Grants	37,231
	Office of Water	
66.418	Construction Assistance for Waste Water Treatment	67,720
66.419	Water Pollution Control--State And Interstate Program Support	87,932
66.420	State & Local Manpower Development Program	73,186
66.423	Water Quality Control Information	27,017
	Passed through from Lewis & Clark Conservation District	49,206
66.432	State Public Water System Supervision	217,941
66.433	State Underground Water Source Protection	5,000
66.438	Construction Management Assistance	175,121
66.454	Water Quality Management Planning	70,747
	Passed through from National Water Research	78,205
66.456	National Estuary Program	689,923
66.458	Capitalization Grants For State Revolving Funds	9,508,125
66.460	Nonpoint Source Implementation Grants	3,300,243
	Passed through from Lewis & Clark Conservation District	10,736
	Passed through from Missoula Conservation District	810
66.461	Wetlands Protection--State Development Grants	402,773
	Passed through from Lewis & Clark Conservation District	31,075
66.463	National Pollutant Discharge Elimination System Related State Program Grants	203,937
66.465	Wellhead Protection Demonstration Projects	11,817
	Office of Research and Development	
66.500	Environmental Protection-Consolidated Research	344,540
66.502	Pesticides Control Research	148,943

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1997

CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
66.504	Solid Waste Disposal	17,208
66.505	Water Pollution Control-Research, Development, and Demonstration	11,287
	Passed through from Kansas State University	19,518
66.506	Safe Drinking Water Research	1
	Office of Administration	
66.605	Performance Partnership Grants	2,493,014
66.606	Surveys, Studies, Investigations And Special Purpose Grants	3,132
	Passed through from Florida State University	9,444
	Office of Enforcement and Compliance Assurance	
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	610,914
66.708	Pollution Prevention Grants Program	73,877
	Office of Solid Waste and Emergency Response	
66.801	Hazardous Waste Management State Program Support	173,564
	Passed through from Kansas State University	254,928
66.802	Hazardous Substance Response Trust Fund	1,190,729
	Passed through from CDM Federal Programs Corporation	12,930
	Passed through from Kansas State University	2,283
66.804	State Underground Storage Tanks Program	36,970
66.805	Underground Storage Tank Trust Fund	623,020
66.807	Superfund Innovative Technology Evaluation Program	
	Passed through from CDM Federal Programs Corporation	23,652
	Passed through from CH2M Hill Inc.	562
66.808	Solid Waste Management Assistance	6,446
	Office of Prevention, Pesticides and Toxic Substances	
66.900	Pollution Prevention	745
	Office of Environmental Education	
66.950	Environmental Education And Training Program	74,075
	Passed through from North American Association for Environmental Education	35,229
66.951	Environmental Education Grants	13,031
	Miscellaneous	
66.999	Other Miscellaneous Non-Major Grants	109,948
	Total for Agency	**$21,669,453**
	Overseas Private Investment Corporation	
70.003	Foreign Investment Insurance	$236
	Total for Agency	**$236**
	Department of Energy	
81.004	University-Laboratory Cooperative Program	$4,305
81.041	State Energy Conservation	290,295
81.042	Weatherization Assistance for Low-Income Persons	1,349,544
81.049	Basic Energy Sciences--University & Science Education	400,607
	Passed through from University of Nebraska	26,516
81.052	Energy Conservation for Institutional Buildings	32,550

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1997

CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
81.064	Office of Scientific and Technical Information	82,853
81.077	University Research Instrumentation	148,227
81.079	Regional Biomass Energy Programs	54,528
81.080	Office of Policy Financial Assistance	1,625
81.086	Conservation Research and Development	1,991,736
81.087	Renewable Energy Research & Development	181,744
	Passed through from National Renewal Energy Lab	40,088
81.092	Environmental Restoration	167,845
	Passed through from University of New Mexico	38,420
81.099	Minority Math Science Leadership Development	470,556
81.104	Technology Development for Environmental Management	101,732
81.999	Other Miscellaneous Non-Major Grants	1,015,571
	Passed through from Environmental Science Research	2,316
	Passed through from MACTEC	13,920
	Passed through from Society of Manufacturing Engineers	3,006
	Passed through from Florida State University	4,480
	Total for Agency	$6,422,464

United States Information Agency

CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
82.001	Educational Exchange-Graduate Students	$240,452
82.002	Educational Exchange--University Lecturers & Research Scholars	19,928
	Total for Agency	$260,380

Federal Emergency Management Agency

CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
83.010	National Fire Academy Educational Program	$20
83.011	Hazardous Materials Training for Implementation of the Superfund Amendment	85,779
83.505	State Disaster Preparedness Grants	49,511
83.516	Disaster Assistance	1,806,990
83.521	Earthquake Hazards Reduction Grants	77,757
83.534	Emergency Management - State and Local Assistance	983,571
83.535	Mitigation Assistance Program	30,571
83.546	National Arson Prevention Initiative	6,000
83.547	Anti-Terrorist Training	18,031
83.999	Other Miscellaneous Non-Major Grants	8,651
	Total for Agency	$3,066,881

Department of Education

CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
84.002	Adult Education-State Grant Program	$775,285
84.004	Desegregation Assistance, Civil Rights Training, And Advisory Services	29,783
84.007	Supplemental Educational Opportunity Grants	814,799
84.010	Title I Grants to Local Educational Agencies	25,121,089
84.011	Migrant Education-Basic State Grant Program	569,484
84.013	Title I Program for Neglected and Delinquent Children	138,760
84.021	International: Overseas - Group Projects Abroad	30,397
84.024	Early Education for Children with Disabilities	498,794
84.025	Services for Children with Deaf-Blindness	164,991
84.026	Media and Captioned Services for Individuals with Disabilities	2,311
84.027	Special Education-State Grants	8,348,009

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1997

CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
84.029	Special Education Personnel Development & Parent Training	362,855
84.031	Higher Education-Institutional Aid	231,208
84.032	Federal Family Education Loan	1,061,582
84.033	Federal Work-Study Program	2,013,372
84.034	Public Library Services	478,853
84.035	Interlibrary Cooperation and Resource Sharing	106,607
84.036	Library Education & Training	22,872
84.038	Federal Perkins Loan Program - Federal Capital Contributions	526,154
84.042	Student Support Services	963,966
84.044	Talent Search	418,478
84.047	Upward Bound	1,246,286
84.048	Vocational Education - Basic Grants to States	4,397,741
	Passed through from Missoula County High School	44,025
84.053	Vocational Education - State Councils	30,232
84.055	Higher Education - Cooperative Education	28,782
84.061	Indian Education - Special Programs And Projects	29,264
84.063	Federal Pell Grant Program	18,204,375
84.066	Educational Opportunity Centers	406,208
84.069	State Student Incentives Grants	92,241
84.073	National Diffusion Network	7,890
84.086	Special Education - Program for Severely Disabled Children	217,311
84.097	Law School Clinical Experience Program	57,836
84.116	Fund for the Improvement of Postsecondary Education	51,595
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	8,374,299
84.128	Rehabilitation Services-Service Projects	122,934
84.129	Rehabilitation Training	93,722
84.133	National Institute on Disability and Rehabilitation Research	590,494
84.151	Federal, State, And Local Partnerships For Educational Improvement	401
84.153	Business & International Education	85,950
84.154	Public Library Construction and Technology Enhancement	159,182
84.158	Secondary Education and Transitional Services for Youth with Disabilities	459,344
84.160	Training Interpreters for Individuals who are Deaf and Deaf-Blind	
	Passed through from Front Range Community College	2,979
84.162	Immigrant Education	10,711
84.164	Eisenhower Mathematics and Science Education State Grants	50,889
84.168	Eisenhower Professional Development-National Activities	180,891
84.169	Independent Living - State Grants	342,502
84.173	Special Education-Preschool Grants	1,316,625
84.177	Rehabilitation Services-Independent Living Services for Older Blind Individuals	180,605
84.181	Special Education-Grants for Infants and Families with Disabilities	1,545,710
84.183	Higher Education Consortia for Drug Prevention	54,959
84.185	Byrd Honors Scholarships	68,290
84.186	Drug-Free Schools and Communities	2,135,806
84.187	Supported Employment Services for Individuals with Severe Handicaps	331,925
84.190	Christa McAuliffe Fellowships	27,669
84.194	Bilingual Education Support Services	120,327
84.195	Bilingual Education - Professional Development	76,198
84.196	Education For Homeless Children and Youth	107,136
84.203	Star Schools	
	Passed through from State of Washington	12,276
84.213	Even Start-State Educational Agencies	540,579
84.214	Even Start-Migrant Education	
	Passed through from State of Wisconsin	9,280

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1997

CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
84.215	Fund for the Improvement of Education	41,646
	Passed through from Helena Public Schools	29,888
84.217	Ronald E. McNair Post-Baccalaureate Achievement	99,635
84.218	State School Improvement Grants	166,034
84.224	State Grants for Assistive Technology	561,653
	Passed through from University of Colorado Health Science Center	1,171
84.235	Vocational Rehabilitation Services to Individuals with Severe Disabilities	
	Passed through from Allegheny Campus - HS	38,119
	Passed through from Allegheny Sing Institute	8,695
84.243	Tech-Prep Education	382,595
84.254	Adult Education Literacy	24,460
84.265	Rehabilitation Training - Continuing Education	18,401
	Passed through from Center for Technical Training	3,161
84.266	Training in Early Childhood Education and Violence Counseling	105,909
84.268	Federal Direct Student Loan	29,968,461
84.281	Eisenhower Professional Development State Grants	1,343,895
84.298	Innovative Education Program Strategies	1,385,408
84.309	National Institute on Postsecondary Education, Libraries, & Lifelong Learning	49,861
84.998	American Printing House for the Blind	1,427
84.999	Other Miscellaneous Non-Major Grants	82,388
	Passed through from Florida State University	4,480
	Passed through from Montana Advocacy, Inc.	22,496
	Passed through from Montana Committee for the Humanities	10,424
	Passed through from University of Colorado	364
	Total for Agency	**$118,845,689**
	Department of Health and Human Services	
	Administration on Aging	
93.041	Title VII, Chapter 3 - Programs for Prevention of Abuse, Neglect, and Exploitation	$23,660
93.042	Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	22,468
93.043	Title III, Part F - Disease Prevention and Health Promotion Services	72,559
93.044	Title III, Part B - Grants for Supportive Services and Senior Centers	1,584,805
93.045	Title III, Part C - Nutrition Services	2,367,616
93.046	Title III, Part D - In-Home Services for Frail Older Individuals	44,283
93.048	Title IV - Training, Research and Discretionary Projects and Programs	19,709
	Public Health Service-I	
93.103	Food and Drug Administration-Research	4,061
93.107	Area Health Education Centers - Model Programs	6,099
93.110	Maternal and Child Health Federal Consolidated Programs	97,475
93.113	Biological Response to Environmental Health Hazards	19,876
93.114	Applied Toxicological Research and Testing	38,582
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	95,410
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	197,712
93.119	Grants for Technical Assistance - Mental Health Services	168,865
93.125	Mental Health Planning and Demonstration Projects	163,489
93.127	Emergency Medical Services for Children	332,251
93.130	Primary Care Services-Resource Coordination and Development Agreements	200,601
93.150	Projects for Assistance in Transition from Homelessness	300,491
93.173	Research Related to Deafness & Communication Disorders	35,847
93.184	Disabilities Prevention	25,459
	Passed through from Maine Department of Human Services	22,150

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1997

CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
93.186	National Research Service Awards	
	Passed through from University of Washington	40,866
93.193	Urban Indian Health Services	721
93.197	Childhood Lead Poisoning Prevention Projects--State and Community-Based	230,051
93.214	Extramural Research Facilities Construction Projects	(117)
93.217	Family Planning Services	1,115,219
93.263	Occupational Safety and Health Training Grants	63,507
93.268	Childhood Immunization Grants	2,419,894
93.273	Alcohol Research Programs	17,538
93.279	Drug Abuse Research Programs	27,848
93.283	Centers for Disease Control - Investigations and Technical Assistance	1,070,331
93.298	Nurse Practitioner & Nurse-Midwifery Education Programs	253,191
93.337	Biomedical Research Support	156,808
	Passed through from American Physiological Society	144
	Passed through from Virginia State University	14,578
93.342	Health Professions Student Loans/Loans for Disadvantaged Students	77,424
93.358	Professional Nurse Traineeships	31,306
93.371	Biomedical Technology	102,910
93.375	Minority Biomedical Research Support	188,207
93.390	Academic Research Enhancement Award	74,358
93.393	Cancer Cause & Prevention Research	2,964
93.395	Cancer Treatment Research	21,501
93.396	Cancer Biology Research	32,117
	Administration for Children and Families	
93.556	Family Preservation and Support Services	589,077
93.558	Temporary Assistance for Needy Families	14,493,903
93.560	Family Support Payments to States-Assistance Payments	19,491,658
93.561	Job Opportunities and Basic Skills Training	928,437
93.563	Child Support Enforcement	7,896,267
93.566	Refugee and Entrant Assistance-State Administered Programs	294,347
93.568	Low-Income Home Energy Assistance	8,100,118
93.569	Community Services Block Grant	1,745,750
93.571	Community Services Block Grant Awards-Community Food and Nutrition	100
93.572	Emergency Community Services for the Homeless	1,197
93.574	Child Care for Families At-Risk of Welfare Dependency	177,487
93.575	Child Care and Development Block Grant	3,805,838
93.576	Refugee and Entrant Assistance-Discretionary Grants	4,038
93.586	State Court Improvement Program	144,349
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	2,772,259
93.600	Head Start	44,697
93.630	Developmental Disabilities-Basic Support and Advocacy Grants	412,778
93.632	Developmental Disabilities-University Affiliated Facilities	267,573
	Passed through from Montana DDPAC	45,383
93.643	Children's Justice Grants to States	62,528
93.645	Child Welfare Services-State Grants	861,657
93.656	Temporary Child Care and Crisis Nurseries	393,717
93.658	Foster Care-Title IV-E	8,564,842
93.667	Social Services Block Grant	6,972,222
93.669	Child Abuse & Neglect State Grants	268,980
93.671	Family Violence Prevention and Services	219,238
93.673	Grants to States for Planning and Development of Dependent Care Programs	23,704
93.674	Independent Living	280,098

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1997

CFDA #	Federal Assistance Program by Federal Agency	1996-1997 Assistance Amount
	Health Care Financing Administration	
93.775	State Medicaid Fraud Control Units	302,326
93.777	State Survey and Certification of Health Care Providers and Suppliers	1,531,912
93.778	Medical Assistance Program	275,155,620
93.779	Health Care Financing Research, Demonstrations, and Evaluations	241,345
	Public Health Service-II	
93.821	Cell Biology & Biophysics Research	145,138
93.822	Health Careers Opportunity Program	58,582
93.838	Lung Diseases Research	48,602
93.846	Arthritis, Musculoskeletal & Skin Diseases Research	204,905
93.854	Biological Basis Research in the Neurosciences	384,674
	Passed through from the University of California - Irvine	5,995
93.855	Allergy, Immunology & Transplantation Research	720,317
93.856	Microbiology & Infectious Diseases Research	817,313
	Passed through from UCLA	42,623
	Passed through from University of Utah	57,038
93.859	Pharmacology, Physiology, & Biological Chemistry Research	231,290
	Passed through from Microsensor System	24,912
93.862	Genetics and Developmental Biology Research	253,014
93.863	Cellular and Molecular Basis of Disease Research	327,478
93.867	Vision Research	241,447
93.879	Medical Library Assistance	31,171
93.880	Minority Access To Research Careers	60,866
93.906	Rural Health Medical Education Demonstration Project	70,465
93.912	Rural Health Services Outreach	231,531
93.913	Grants to States for Operation of Offices of Rural Health	63,976
	Passed through from Montana State Office of Rural Health	4,059
93.917	HIV Care Formula Grants	103,962
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	8,110
93.940	HIV Prevention Activities - Health Department Based	975,549
93.944	HIV/AIDS Surveillance	78,372
93.951	Demonstration Grants to States with Respect to Alzheimer's Disease	103,236
93.953	Modification of Trauma Care Component of State EMS Plan	113
93.958	Block Grants for Community Health Services	885,109
93.959	Block Grants for Prevention and Treatment of Substance Abuse	3,694,162
93.960	Special Minority Initiatives	92,376
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	239,172
93.988	Cooperative Agreements for State-Based Diabetes Control Programs	175,691
93.991	Preventive Health and Health Services Block Grant	1,068,139
93.994	Maternal and Child Health Services Block Grant	2,468,157
	Miscellaneous	
93.999	Other Miscellaneous Non-Major Grants	206,945
	Passed through from Colorado State University	50,747
	Passed through from State of Colorado	5,720
	Total for Agency	**$382,059,235**

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1997

CFDA #	Federal Assistance Program by Federal Agency		1996-1997 Assistance Amount
Corporation for National and Community Service			
94.003	State Commissions		$135,778
94.005	Learn and Serve America-Higher Education		130,570
	Passed through from Campus Compact		8,037
94.006	Americorps		984,841
94.009	Training and Technical Assistance		36,933
94.013	VISTA		27,216
94.999	Other Miscellaneous Non-Major Grants		
	Passed through from Campus Compact		14,567
		Total for Agency	**$1,337,942**
Social Security Administration			
96.001	Social Security-Disability Insurance		$3,207,101
		Total for Agency	**$3,207,101**
Miscellaneous			
99.999	Other Miscellaneous Non-Major Grants		$492,329
		Total for Agency	**$492,329**
		Grand Total	**$977,813,014**

STATE OF MONTANA
NOTES TO THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE FOR THE FISCAL YEAR ENDED JUNE 30, 1997

Note 1. Basis of Accounting

The assistance amounts presented on the accompanying Schedule of Federal Financial Assistance of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Programs

The amounts reported for Food Distribution programs (CFDA # 10.550, 10.559, 10.567, 10.569, 10.570, and 10.571) represent the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the commodities programs is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 1996-97, Montana distributed $865,598 of food commodities under CFDA #10.567 to other states.

Federal Surplus Personal Property

In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is valued at 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for State Revolving Funds (CFDA # 66.458) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 1997 is $28,313,900.

Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 1997 is $965,478.

Mineral Leasing Program

The amount reported for CFDA #15.999 includes $19,663,503 for the Mineral Leasing Program from the Department of the Interior. This amount represents cash the state received during the fiscal year.

Federal Family Education Loans

The amount of new loans guaranteed for Federal Family Education Loans (CFDA#84.032) program was $83,028,185 in fiscal year 1996-97. Claims paid for loans due to death, disability, default and bankruptcy was $21,238,278 in fiscal year 1996-97. The amount presented on the accompanying Schedule of Federal Financial Assistance, represents the administrative expenses and supplemental preclaims assistance payments received by the state for the fiscal year.

Federal Perkins Loan Program - Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program - Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 1997 is $24,691,060.

Nursing Student Loan Program

For the Nursing Student Loan Program (CFDA #93.364) there were no federal contributions or administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 1997 is $1,250,621.

Note 2. Major Federal Programs

In accordance with the criteria established by the Single Audit Act of 1984 and OMB Circular A-128, a major federal financial assistance program for the State of Montana is defined as assistance to the state exceeding $4 million for any federal program in the fiscal year ended June 30.

Note 3. CFDA

The CFDA # assigned for each federal program listed in the Schedule of Federal Financial Assistance was based upon agency agreements with the federal government and the Catalogs of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.*99 or **.999. The first two digits represent the federal agency and the third digit represents the division within the federal agency. In cases where the federal agency does not have a designated CFDA#, the program was assigned a CFDA# in the format 99.999.

Note 4. Federal Excess Personal Property

The Montana Department of Natural Resources and Conservation and The University of Montana received Federal Excess Personal Property (FEPP) through the Cooperative Forestry Assistance Program (CFDA #10.664) valued at $6,832,939 and $219,820, respectively, in fiscal year 1996-97. The department's and university's perpetual inventory systems account for the FEPP based on the original acquisition cost to the federal government. Therefore the records do not reflect the current market value of the property.

The department maintains property inventory records for capital and sensitive federal excess equipment, which it reconciles with the USDA, Forest Service every two years. The balances of FEPP on the department's and university's inventory records at June 30, 1997 were $20,330,970 and $2,585,754, respectively.

The federal government retains title to the property. The department and university coordinate disposal of FEPP with the U.S. Forest Service and General Services Administration. All proceeds from the sales go to the federal government. The value of FEPP related to this program is not reflected in the accompanying Schedule of Federal Financial Assistance.

The Department of Administration is the coordinating agency for the Law Enforcement Support Program (CFDA# 12.999) . This program is designed to transfer excess personal property from the U.S. Department of Defense to other federal and state law enforcement agencies. Title to property reutilized through this program does not transfer to the recipient agency. Items requested by law enforcement agencies are shipped directly to the requesting agency. The Department of Administration acts in an approving capacity and does not actually take possession of the property. Therefore, the departments' accounting records do not show the value of items distributed through this program. The value of the property distributed through this program was $182,702 for fiscal year 1996-97, which is 23.3 percent of the original acquisition cost of the property.

Note 5. Books for the Blind and Physically Handicapped

The Montana State Library receives "talking book" machines, books, and cassettes from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 1997 was $1,754,014. The accompanying Schedule of Federal Financial Assistance does not include this amount.

Note 6. Subgrants

Federal assistance subgranted from one Montana state agency to another Montana state agency is excluded from the Schedule of Federal Financial Assistance.

Federal assistance received from nonstate sources which are considered subgrants by the awarding agency are treated as passthrough grants to the state and are reported on the Schedule of Federal Financial Assistance.

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
ohn W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for the fiscal year ended June 30, 1997, and have issued our report thereon dated October 30, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

The management of the state of Montana is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general purpose financial statements of the state of Montana, for the year ended June 30, 1997, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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We noted certain matters involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the state's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

Our audit disclosed a reportable condition concerning internal controls at one agency, the Department of Public Health and Human Services. The condition relates to inappropriate design and incomplete implementation of control policies and procedures in several of the internal control structure elements. These matters are discussed in issues 13-1 through 13-10 in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we consider the reportable condition described above to be a material weakness. This condition was considered in determining the nature, timing and extent of procedures performed in our audit of the general purpose financial statements of the state of Montana for the fiscal year ended June 30, 1997.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information of the audit committee, management, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 30, 1997

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for the fiscal year ended June 30, 1997, and have issued our report thereon dated October 30, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the state of Montana is the responsibility of the state of Montana's management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the state of Montana's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed an instance of noncompliance that is required to be reported herein under *Government Auditing Standards*.

One agency, the Department of Public Health and Human Services, accrued expenditures of $19.44 million in contracts which did not meet valid obligation criteria.

We considered the material instance of noncompliance in forming our opinion on whether the state of Montana's general purpose financial statements for the fiscal year ended June 30, 1997 are presented

FY96 Financial Section

Federal Single Audit Reports

Audit Issues

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fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated October 30, 1997 on those general purpose financial statements.

The results of our tests disclosed immaterial instances of noncompliance with the above requirements that we reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information of the audit committee, management, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 30, 1997

FY96 Financial Section

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON THE GENERAL PURPOSE FINANCIAL STATEMENTS AND THE SUPPLEMENTARY SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Combined Balance Sheet All Fund Types, Account Groups and Discretely Presented Component Units, Combining Balance Sheet Component Units-Proprietary Fund Types, Statement of Plan Net Assets Component Unit-Pension Trust Fund, and Combining Balance Sheet Component Units-All Higher Education Funds of the state of Montana as of June 30, 1996, and the related Combined Statement of Revenues, Expenditures and Changes in Fund Balances All Governmental Fund Types and Expendable Trust Funds, Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis-Unreserved Fund Balance General and Special Revenue Fund Types, Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units, Combining Statement of Revenues, Expenses and Changes in Retained Earnings Component Units-Proprietary Fund Types, Combining Statement of Changes in Plan Net Assets Pension Trust Funds and Discretely Presented Component Unit, Statement of Changes in Fund Balance Component Units-All Higher Education Funds, Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes Component Units-Higher Education Fund Type and the related Combined Statement of Cash Flows All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units and Combining Statement of Cash Flows Component Units-Proprietary Fund Types for the year then ended. These general purpose financial statements are the responsibility of the state of Montana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which statements reflect total assets of 6 percent, liabilities of 8 percent, and net operating revenues and expenditures/transfers-out of 30 and 31 percent, respectively, in the Enterprise Fund. We did not audit the financial activity of the Office of Public Instruction, which activity reflects total expenditures/transfers-out of 53 percent in the General Fund, total revenues/transfers-in and expenditures of 5 and 6 percent, respectively, and residual equity transfers of 60 percent in the Special Revenue Fund, transfers-in of 21 percent in the Internal Service Fund, and other immaterial amounts in the General, Special Revenue and Internal Service Funds. This financial activity was audited by other auditors whose reports thereon have been furnished to us, and

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our opinion, insofar as it relates to the amounts included for the Montana State Lottery and the Office of Public Instruction, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana as of June 30, 1996, and the results of its operations, the cash flows of its proprietary and nonexpendable trust fund types and discretely presented component units, the changes in plan net assets of its pension trust funds and discretely presented component unit, and the changes in fund balance and current funds revenues, expenditures, transfers and other changes of the component unit higher education funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 1996 on our consideration of the state of Montana's internal control structure and a report dated October 25, 1996 on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the state of Montana taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based upon our audit and the report of the other auditor, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,

James Gillett

James H. Gillett, CPA
Deputy Legislative Auditor

October 25, 1996

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STATE OF MONTANA
Combined Balance Sheet
All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1996
(Expressed In Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
ASSETS/OTHER DEBITS	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
Assets:						
Cash/Cash Equivalents (Note 4)	$ 146,320	$ 227,293	$ 31,468	$ 19,151	$ 18,991	$ 23,865
Receivables (Net of Uncollectibles)	50,084	37,153	3,299	1,075	19,952	823
Interfund Loans Receivable (Note 13)	18,978	33,710	-	-	-	-
Due from Other Governments	16,214	116,037	-	-	-	13
Due from Primary Government (Note 13)	-	-	-	-	-	-
Due from Component Units (Note 13)	404	572	5	-	128	865
Due from Other Funds (Note 13)	49,787	11,881	86	302	281	4,067
Inventories	2,039	47,773	-	-	4,458	966
Equity in Pooled Investments (Note 4)	-	-	-	-	-	-
Long-Term Loans/Notes Receivable	-	29,658	34,967	-	27,524	1,272
Advances to Other Funds (Note 13)	2,530	223	-	-	-	-
Investments (Note 4)	-	15,517	1,576	-	13,769	34,181
Land	-	-	-	-	800	338
Buildings/Improvements	-	-	-	-	5,430	9
Equipment	-	-	-	-	4,127	127,147
Other Fixed Assets	-	-	-	-	1,394	3
Construction in Progress	-	-	-	-	-	353
Accumulated Depreciation	-	-	-	-	(5,998)	(70,994)
Intangible Assets	-	-	-	-	70	30
Deferred Charges	-	-	-	-	1,007	-
Other Assets	4,290	1,297	-	5	6,202	278
Other Debits:						
Amount Available - Debt Service Funds	-	-	-	-	-	-
Resources to be Provided in Future Years	-	-	-	-	-	-
TOTAL ASSETS/OTHER DEBITS	$ 290,646	$ 521,114	$ 71,401	$ 20,533	$ 98,135	$ 123,236
LIABILITIES/EQUITY/OTHER CREDITS						
Liabilities:						
Accounts Payable	$ 83,829	$ 109,642	$ 3,831	$ 2,430	$ 6,146	$ 3,292
Lottery Prizes Payable	-	-	-	-	2,861	-
Interfund Loans Payable (Note 13)	-	46,419	-	5,100	-	100
Advances from Other Funds (Note 13)	-	2,778	-	-	35	-
Due to Other Governments	30,139	4,277	-	-	6	-
Due to Primary Government (Note 13)	-	-	-	-	-	-
Due to Component Units (Note 13)	425	1,061	25	-	12	20
Due to Other Funds (Note 13)	13,847	32,791	2,051	5,336	9,294	1,920
Deferred Revenue	18,783	41,744	652	-	3,302	163
Lease/Installment Purchase Payable (Note 11)	-	-	-	-	10	2,335
Bonds/Notes Payable (Net) (Note 12)	101,200	-	-	-	40,593	-
Property Held in Trust	985	1,459	-	-	4,536	149
Compensated Absences Payable (Note 1)	-	-	-	-	835	2,650
Net Pension Obligation Payable (Note 12)	-	-	-	-	-	-
Estimated Insurance Claims (Note 9)	-	-	-	-	1,640	25,039
Arbitrage Rebate Tax Payable	-	-	-	-	261	-
Other Liabilities	1	9	-	-	-	-
Total Liabilities	249,009	240,180	6,759	12,868	69,333	35,668
Equity/Other Credits:						
Investment in General Fixed/Plant Assets	-	-	-	-	-	-
Contributed Capital (Note 17)	-	-	-	-	4,592	6,578
Retained Earnings:						
Reserved for Debt Service	-	-	-	-	-	-
Unreserved	-	-	-	-	24,210	80,990
Fund Balances:						
Reserved for Encumbrances	6,923	43,229	-	4	-	-
Reserved for Inventories	2,039	24,224	-	-	-	-
Reserved for Advances to Other Funds (Note 13)	2,530	223	-	-	-	-
Reserved for Long-Term Loans	-	26,470	34,967	-	-	-
Reserved for Debt Service	-	-	29,675	-	-	-
Reserved for Trusts/Endowments (Note 15)	-	14,224	-	-	-	-
Reserved for Construction	-	-	-	-	-	-
Reserved for Retirement Systems	-	-	-	-	-	-
Unreserved, undesignated	30,145	170,564	-	7,661	-	-
Total Equity/Other Credits	41,637	280,934	64,642	7,665	28,802	87,568
TOTAL LIABILITIES/EQUITY/OTHER CREDITS	$ 290,646	$ 521,114	$ 71,401	$ 20,533	$ 98,135	$ 123,236

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND TYPES	ACCOUNT GROUPS		COMPONENT UNITS		
TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	PROPRIETARY FUND TYPES	PENSION TRUST FUND	HIGHER EDUCATION FUNDS
$ 825,341	$ -	$ -	$ 49,966	$ 47,155	$ 113,059
116,041	-	-	27,644	14,800	38,372
-	-	-	-	-	2,765
-	-	-	-	-	3,967
-	-	-	324	14	1,892
1,372	-	-	-	-	-
31,457	-	-	1,807	522	16,393
-	-	-	58	-	4,103
2,826,365	-	-	-	1,304,496	2,430
4,219	-	-	355,365	-	51
60	-	-	-	-	487
369,470	-	-	652,938	96,186	3,697
49,424	59,073	-	-	35	13,293
277	293,362	-	-	158	303,733
133	105,995	-	3,804	208	127,276
-	44,438	-	-	-	74,149
-	7,783	-	-	-	80,871
(191)	-	-	(1,736)	(214)	-
3	-	-	3,271	97	2,247
-	-	-	8,313	-	1,790
10,772	-	-	836	-	4,113
-	-	29,675	-	-	-
-	-	263,127	-	-	-
$ 4,234,743	$ 510,651	$ 292,802	$ 1,102,590	$ 1,463,457	$ 794,688
$ 47,719	$ -	$ -	$ 5,713	$ 292	$ 25,183
-	-	-	-	-	-
1,069	-	-	-	-	2,765
-	-	-	-	-	487
300,155	-	-	-	3	536
-	-	-	962	27	2,357
688	-	-	-	-	-
34,513	-	-	1,755	10	15,064
1,686	-	-	17,902	-	11,232
-	-	2,077	-	31	1,802
-	-	244,017	569,036	-	142,126
599,101	-	-	1,028	7	4,656
102	-	43,942	706	36	26,390
-	-	2,738	-	-	-
-	-	-	543,280	-	-
-	-	28	178	-	-
3,253	-	-	-	-	-
988,286	-	292,802	1,140,560	406	232,598
-	510,651	-	-	-	474,437
-	-	-	11,599	-	-
-	-	-	98,756	-	-
-	-	-	(148,325)	-	-
-	-	-	-	-	1,339
-	-	-	-	-	-
-	-	-	-	-	-
3,268	-	-	-	-	-
-	-	-	-	-	-
1,049,706	-	-	-	-	29,793
-	-	-	-	-	13,822
2,075,516	-	-	-	1,463,051	-
117,967	-	-	-	-	42,899
3,246,457	510,651	-	(37,970)	1,463,051	562,090
$ 4,234,743	$ 510,651	$ 292,802	$ 1,102,590	$ 1,463,457	$ 794,688

STATE OF MONTANA
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST
REVENUES:					
Licenses/Permits	$ 31,471	$ 78,572	$ -	$ -	$ 1,768
Taxes:					
Natural Resource	24,496	7,133	334	4,352	29,103
Individual Income	348,517	8	33,607	-	-
Corporate Income	59,360	-	6,724	-	9,677
Property	203,920	6,823	-	-	-
Fuel	-	176,048	-	-	-
Payroll	-	541	-	-	-
Other (Note 1)	62,953	50,246	10,531	2,281	23,079
Charges for Services/Fines/Forfeits	25,184	39,385	1,337	461	182
Investment Earnings	16,295	6,835	4,823	641	8,960
Sale of Documents/Mdse./Property	229	4,700	1,847	-	-
Rentals/Leases/Royalties	113	107	-	-	14
Contributions/Premiums	-	4,165	-	-	58,561
Grants/Contracts/Donations	2	9,230	-	-	1,342
Federal	25,200	854,873	227	-	5,238
Federal Indirect Cost Recoveries	85	1,600	-	-	-
Other Revenues	508	1,044	-	-	-
Total Revenues	798,333	1,241,310	59,430	7,735	137,924
Intrafund Revenues	(385)	(2,507)	(162)	-	-
Net Revenues	797,948	1,238,803	59,268	7,735	137,924
EXPENDITURES:					
Current:					
General Government	65,855	5,793	-	51	45,497
Public Safety/Corrections	73,471	45,750	-	-	23,128
Transportation	265	321,877	-	-	-
Health/Social Services	214,052	556,454	-	-	2
Education/Cultural	476,345	75,259	-	-	150
Resource Development/Recreation	14,085	55,138	-	41	-
Economic Development/Assistance	3,246	103,546	-	-	65,830
Debt Service:					
Principal Retirement	606	838	41,477	-	20
Interest/Fiscal Charges	3,201	1,294	13,544	-	2
Capital Outlay	6,394	26,565	12	24,049	4
Total Expenditures	857,520	1,192,514	55,033	24,141	134,633
Intrafund Expenditures	(385)	(2,507)	(162)	-	-
Net Expenditures	857,135	1,190,007	54,871	24,141	134,633
Excess of Rev. Over (Under) Expend.	(59,187)	48,796	4,397	(16,406)	3,291
OTHER FINANCING SOURCES (USES):					
Loan Proceeds	-	1,625	-	-	-
Bond Proceeds	505	9,360	-	-	-
Proceeds of Refunding Bonds	-	13,760	-	-	-
Inception of Lease/Installment Contract	1,128	800	-	-	-
General Fixed Asset Sale Proceeds	117	29	-	-	-
Operating Transfers In (Note 13)	159,562	21,389	38,889	795	63
Transfers from Component Units (Note 13)	-	-	-	-	-
Operating Transfers Out (Note 13)	(7,712)	(36,348)	(53,973)	(1,269)	(1,179)
Transfers to Component Units (Note 13)	(95,880)	(15,092)	-	-	-
Total Other Financing Sources (Uses)	57,720	(4,477)	(15,284)	(474)	(1,116)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses	(1,467)	44,319	(10,887)	(16,880)	2,175
FUND BALANCES - JULY 1 - as Previously Reported	35,436	247,997	72,068	29,745	115,619
Prior Pariod Adjustments (Note 3)	124	(948)	1,163	-	(1,273)
FUND BALANCES - July 1 - As Restated	35,560	247,049	73,231	29,745	114,346
Increase (Decrease) in Inventories	120	224	-	-	-
Residual Equity Transfers (Note 13)	7,424	(10,858)	2,298	(5,200)	4,714
FUND BALANCES - JUNE 30	$ 41,637	$ 280,934	$ 64,642	$ 7,665	$ 121,235

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and
Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance
General and Special Revenue Fund Types
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES:						
Licenses/Permits	$ 28,307	$ 31,471	$ 3,164	$ 77,613	$ 78,572	$ 959
Taxes:						
Natural Resource	26,214	24,496	(1,718)	7,906	7,133	(773)
Individual Income	356,951	348,517	(8,434)	12	8	(4)
Corporate Income	62,477	59,360	(3,117)	-	-	-
Property	210,325	203,920	(6,405)	6,694	6,823	129
Fuel	-	-	-	170,130	176,048	5,918
Payroll	-	-	-	482	541	59
Other	57,282	62,953	5,671	49,720	50,246	526
Charges for Services/Fines/Forfeits	23,665	25,184	1,519	42,000	39,385	(2,615)
Investment Earnings	15,742	16,295	553	6,866	6,835	(31)
Sale of Documents/Merchandise/Property	208	229	21	4,393	4,700	307
Rentals/Leases/Royalties	74	113	39	149	107	(42)
Contributions/Premiums	-	-	-	3,990	4,165	175
Grants/Contracts/Donations	2	2	-	11,579	9,230	(2,349)
Federal	24,037	25,200	1,163	1,038,265	854,873	(183,392)
Federal Indirect Cost Recoveries	572	85	(487)	1,759	1,600	(159)
Other Revenues	71	508	437	1,073	1,044	(29)
Total Revenues	805,927	798,333	(7,594)	1,422,631	1,241,310	(181,321)
EXPENDITURES:						
Current:						
General Government	73,947	68,612	5,335	53,487	4,665	48,822
Public Safety/Corrections	75,070	73,588	1,482	71,605	45,899	25,706
Transportation	379	376	3	361,174	322,510	38,664
Health/Social Services	220,962	219,507	1,455	529,634	502,249	27,385
Education/Cultural	487,354	476,422	10,932	143,441	75,344	68,097
Resource Development/Recreation	14,402	14,135	267	121,318	53,454	67,864
Economic Development/Assistance	3,359	3,266	93	120,281	95,462	24,819
Debt Service:						
Principal Retirement	609	609	-	845	845	-
Interest/Fiscal Charges	3,201	3,201	-	809	809	-
Capital Outlay	4,806	4,806	-	27,751	27,751	-
Total Expenditures	884,089	864,522	19,567	1,430,345	1,128,988	301,357
Excess of Rev. Over (Under) Expend.	(78,162)	(66,189)	11,973	(7,714)	112,322	120,036
OTHER FINANCING SOURCES (USES):						
Loan Proceeds	-	-	-	13,360	1,625	(11,735)
Bond Proceeds	505	505	-	8,095	9,360	1,265
Proceeds of Refunding Bonds	-	-	-	13,760	13,760	-
General Fixed Asset Sale Proceeds	100	117	17	19	29	10
Operating Transfers In	151,607	159,385	7,778	59,049	21,583	(37,466)
Operating Transfers Out	(10,684)	(7,691)	2,993	(7,088)	(5,369)	1,719
Transfers to Component Units	(95,880)	(95,880)	-	(15,092)	(15,092)	-
Total Other Financings Sources (Uses)	45,648	56,436	10,788	72,103	25,896	(46,207)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (Budgetary Basis)	(32,514)	(9,753)	22,761	64,389	138,218	73,829
RECONCILIATION OF BUDGETARY/GAAP REPORTING:						
1. Adjust expenditures for encumbrances.	-	6,852	6,852	-	(1,665)	(1,665)
2. Adjustments for appropriated loans/ other nonbudgeted activity.	-	1,434	1,434	-	(92,234)	(92,234)
3. Intrafund elimination - Transfers In	-	(385)	(385)	-	(49,343)	(49,343)
4. Intrafund elimination - Transfers Out	-	385	385	-	49,343	49,343
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (GAAP Basis)	(32,514)	(1,467)	31,047	64,389	44,319	(20,070)
UNRESERVED FUND BALANCES - JULY 1	25,527	25,527	-	152,965	152,965	-
Residual Equity Transfers (Note 13)	7,424	7,424	-	(10,858)	(10,858)	-
Prior Period Adjustments (Note 3)	-	124	124	-	(948)	(948)
Decrease (Increase):						
Encumbrances Reserve	-	(118)	(118)	-	(6,135)	(6,135)
Advances to Other Funds Reserve	-	(1,345)	(1,345)	-	(13)	(13)
Long-Term Loans Reserve	-	-	-	-	(2,742)	(2,742)
Trusts/Endowments Reserve (Note 15)	-	-	-	-	(6,224)	(6,224)
UNRESERVED FUND BALANCES - JUNE 30	$ 437	$ 30,145	$ 29,708	$ 206,696	$ 170,564	$ (36,132)

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances
All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
OPERATING REVENUES:				
Charges for Services	$ 83,334	$ 65,728	$ 4,389	$ 305
Investment Earnings	1,715	3,125	81,295	45,490
Financing Income	2,415	-	-	27,623
Contributions/Premiums	2,197	67,491	-	114,364
Grants/Contracts/Donations	7	25	-	-
Taxes	11,876	-	19,850	46,439
Rentals/Leases/Royalties	-	-	26,205	-
Other Operating Revenues	3,818	492	35	1,210
Total Operating Revenues	105,362	136,861	131,774	235,431
Intrafund Revenues	(5)	(101)	-	-
Net Operating Revenues	105,357	136,760	131,774	235,431
OPERATING EXPENSES:				
Personal Services	7,262	20,302	-	8,251
Contractual Services	6,019	9,506	-	4,894
Supplies/Materials	35,936	13,649	-	303
Benefits/Claims (Note 3)	3,822	59,357	-	(54,522)
Depreciation	694	8,543	-	496
Amortization	9	29	-	49
Utilities/Rent	600	4,751	-	212
Communications	1,316	10,091	-	567
Travel	161	301	-	192
Repair/Maintenance	419	4,263	-	200
Local Assistance	1,575	-	-	-
Lottery Prize Payments	15,913	-	-	-
Interest Expense	2,748	81	-	41,181
Arbitrage Rebate Tax	122	-	-	175
Other Operating Expenses	2,106	1,480	20	6,255
Total Operating Expenses	78,702	132,353	20	8,253
Intrafund Expenses	(5)	(101)	-	-
Net Operating Expenses	78,697	132,252	20	8,253
Operating Income (Loss)	26,660	4,508	131,754	227,178
NONOPERATING REVENUES (EXPENSES):				
Gain (Loss) Sale of Fixed Assets	(91)	(580)	-	1
Increase (Decrease) Value of Livestock	(388)	-	-	-
Federal Indirect Cost Recoveries	-	2,495	-	-
Total Nonoperating Revenues (Expenses)	(479)	1,915	-	1
Income (Loss) Before Operating Transfers	26,181	6,423	131,754	227,179
Operating Transfers In (Note 13)	70	1,664	1,109	-
Operating Transfers Out (Note 13)	(25,998)	-	(98,314)	-
Transfers to Component Units (Note 13)	-	-	(1,815)	-
Net Income Before Extraordinary Items	253	8,087	32,734	227,179
Loss on Debt Extinguishment (Note 12)	-	-	-	(1,709)
Net Income (loss)	253	8,087	32,734	225,470
RETAINED EARNINGS/FUND BALANCES - July 1 As Previously Reported	24,920	73,322	1,018,948	(275,039)
Prior Period Adjustments (Note 3)	(961)	(142)	-	-
RETAINED EARNINGS/FUND BALANCES - July 1 As Restated	23,959	73,180	1,018,948	(275,039)
Residual Equity Transfers (Note 13)	(2)	(277)	24	-
RETAINED EARNINGS/FUND BALANCES - JUNE 30	$ 24,210	$ 80,990	$ 1,049,706	$ (49,569)

The notes to the financial statements are an integral part of this statement.

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STATE OF MONTANA
Combined Statement of Cash Flows
All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1996
(Expressed In Thousands)

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Sales and Services	$ 75,637	$ 132,367	$ 4,195	$ 113,283
Collections of Principal and Interest on Loans	9,178	-	-	71,232
Cash Payments for Loans	(7,444)	-	-	(57,242)
Payments to Suppliers for Goods and Services	(39,036)	(44,300)	-	(8,434)
Payments to Employees	(7,701)	(20,038)	-	(8,552)
Grant Receipts	-	2,664	-	-
Grant Payments	-	-	(15)	-
Cash Payments for Claims	(3,879)	(63,537)	-	(93,752)
Cash Payments for Local Assistance	(1,464)	-	-	-
Collections of Notes Receivable	-	-	-	(36)
Collections of Payroll Taxes	-	-	-	43,258
Cash Payments for Prizes	(15,273)	-	-	-
Transfers from Other Funds	-	303	-	-
Scholarship/Fellowship Payments	-	-	(4)	-
Other Operating Revenues	2,785	113	35	1,180
Net Cash Provided by (Used for) Operating Activities	12,803	7,572	4,211	60,937
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Payment of Principal and Interest on Bonds and Notes	(9,677)	-	-	(150,901)
Proceeds from Issuance of Bonds and Notes	8,378	-	-	89,856
Payment of Bond Issuance Costs	(121)	-	-	(1,493)
Collection of Taxes	11,876	-	20,119	-
Transfers to Other Funds	(21,276)	-	(102,144)	(638)
Transfers to Component Units	-	-	(1,678)	-
Transfers from Other Funds	69	1,079	1,086	(114)
Transfers from Primary Government	-	-	-	27,426
Proceeds from Interfund Loans	200	190	37	-
Payment of Interfund Loans	(235)	(345)	97	-
Residual Equity Transfers to Other Funds	(2)	(200)	-	-
Residual Equity Transfers from Other Funds	-	-	24	-
Contributed Capital Transfers from Other Funds	-	1,691	-	-
Net Cash Provided by (Used for) Noncapital Financing Activities	(10,788)	2,415	(82,459)	(35,864)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Fixed Assets	(1,452)	(9,985)	-	(2,188)
Proceeds from Sale of Fixed Assets	158	1,037	-	3
Principal and Interest Payments on Bonds and Notes	(29)	(1,182)	-	-
Net Cash Used for Capital and Related Financing Activities	(1,323)	(10,130)	-	(2,185)
CASH FLOW FROM INVESTING ACTIVITIES:				
Purchase of Investments	(10,087)	(25,809)	(83,457)	(1,017,942)
Proceeds from Sales or Maturities of Investments	9,167	16,616	54,734	948,428
Interest and Dividends on Investments	1,571	3,286	77,632	45,541
Arbitrage Rebate Tax	(231)	-	-	(206)
Collections of Principal on Loans	-	-	16,342	-
Cash Payments for Loans	-	-	(25,178)	-
Collection of Rents/Leases/Royalties	-	-	25,488	-
Net Cash Provided by (Used for) Investing Activities	420	(5,907)	65,561	(24,179)
Net Increase (Decrease) in Cash and Cash Equivalents	1,112	(6,050)	(12,687)	(1,291)
Cash and Cash Equivalents, July 1	17,879	29,935	64,544	51,257
CASH AND CASH EQUIVALENTS, JUNE 30	$ 18,991	$ 23,885	$ 51,857	$ 49,966

The notes to the financial statements are an integral part of this statement.

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating Income (Loss)	$ 26,660	$ 4,508	$ 131,754	$ 227,178
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Depreciation	694	8,543	-	496
Amortization	9	29	-	49
Taxes	(11,876)	-	(19,850)	-
Interest Expense	2,748	81	-	41,181
Interest on Investments	(1,715)	(3,125)	(81,295)	(45,490)
Federal Indirect Cost Recoveries	-	2,495	-	-
Arbitrage Rebate Tax	122	-	-	175
Operating Transfers in	-	627	-	-
Rentals/Leases/Royalties	-	-	(26,205)	-
Change in Assets and Liabilities:				
Decr (Incr) in Accounts Receivable	(13,472)	(198)	-	2,860
Decr (Incr) in Due From Other Governments	-	(2)	-	-
Decr (Incr) in Due From Other Funds	(38)	340	(194)	343
Decr (Incr) in Due From Primary Government	-	-	-	(311)
Decr (Incr) in Due From Component Units	(120)	(41)	-	-
Decr (Incr) in Inventories	5,107	24	-	15
Decr (Incr) in Intangible Assets	7	-	-	-
Decr (Incr) in Long-term Loans/Notes Receivable	1,590	(1,272)	-	(13,613)
Decr (Incr) in Other Assets	(2,715)	(79)	-	816
Incr (Decr) in Accounts Payable	2,379	(27)	1	(143)
Incr (Decr) in Lottery Prizes Payable	766	-	-	-
Incr (Decr) in Due to Other Funds	(18)	(368)	-	423
Incr (Decr) in Due to Other Governments	5	-	-	-
Incr (Decr) in Due to Primary Government	-	-	-	(84)
Incr (Decr) in Due to Component Units	12	3	-	-
Incr (Decr) in Deferred Revenue	559	115	-	(3,800)
Incr (Decr) in Bonds/Notes Payable	(49)	-	-	-
Incr (Decr) in Property Held in Trust	2,436	52	-	(806)
Incr (Decr) in Compensated Absences Payable	(247)	115	-	(46)
Incr (Decr) in Estimated Insurance Claims	(41)	(4,250)	-	(148,306)
Net Cash Provided by (Used For) Operating Activities	$ 12,803	$ 7,572	$ 4,211	$ 60,937
SCHEDULE OF NONCASH TRANSACTIONS:				
Fixed Asset Acquisitions from Capital Leases	$ 56	$ 2,210	$ -	$ -
Asset Acquisitions from Contributed Capital Transfers from Other Funds	1,303	2,138	-	-
Asset Disposals from Contributed Capital	-	(308)	-	-
Total Noncash Transactions	$ 1,359	$ 4,040	$ -	$ -

RECONCILIATION FOR NONEXPENDABLE TRUST:

Cash and Cash Equivalents, June 30	$ 51,857
Cash and Cash Equivalents, Expendable Trust, Pension Trust and Agency	773,484
Cash and Cash Equivalents per Combined Balance Sheet, Trust and Agency	$ 825,341

STATE OF MONTANA
Combining Balance Sheet
Component Units - Proprietary Fund Types
June 30, 1996
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
ASSETS:					
Cash/Cash Equivalents	$ 4,515	$ 239	$ 37,477	$ 7,735	$ 49,966
Receivables (Net)	4,290	118	19,915	3,321	27,644
Due from Primary Government (Note 13)	1	-	36	287	324
Due from Other Funds (Note 13)	-	-	1,770	37	1,807
Inventories	-	-	58	-	58
Long-Term Loans/Notes Receivable	355,154	211	-	-	355,365
Investments (Note 4)	159,922	605	481,302	11,109	652,938
Equipment	278	18	3,508	-	3,804
Accumulated Depreciation	(186)	(10)	(1,540)	-	(1,736)
Intangible Assets	22	-	3,249	-	3,271
Deferred Charges	5,375	-	-	2,938	8,313
Other Assets	26	-	810	-	836
TOTAL ASSETS	$ 529,397	$ 1,181	$ 546,585	$ 25,427	$ 1,102,590
LIABILITIES/FUND EQUITY:					
Liabilities:					
Accounts Payable	$ 4,718	$ 2	$ 444	$ 549	$ 5,713
Due to Primary Government (Note 13)	36	11	913	2	962
Due to Other Funds (Note 13)	2	-	8	1,745	1,755
Deferred Revenue	-	1	17,673	228	17,902
Bonds/Notes Payable (Net) (Note 12)	439,979	-	-	129,057	569,036
Property Held in Trust	-	-	1,028	-	1,028
Compensated Absences Payable	37	19	608	42	706
Estimated Insurance Claims (Note 9)	-	-	294,478	248,802	543,280
Arbitrage Rebate Tax Payable	38	-	-	140	178
Total Liabilities	444,810	33	315,152	380,565	1,140,560
Fund Equity:					
Contributed Capital (Note 17)	-	-	11,599	-	11,599
Retained Earnings:					
Reserved for Debt Service (Note 15)	84,587	-	-	14,169	98,756
Unreserved	-	1,148	219,834	(369,307)	(148,325)
Total Fund Equity	84,587	1,148	231,433	(355,138)	(37,970)
TOTAL LIABILITIES/FUND EQUITY	$ 529,397	$ 1,181	$ 546,585	$ 25,427	$ 1,102,590

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Revenues, Expenses and Changes in Retained Earnings
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
OPERATING REVENUES:					
Charges for Services	$ 42	$ 227	$ 36	$ -	$ 305
Investment Earnings	11,161	40	33,125	1,164	45,490
Financing Income	27,603	20	-	-	27,623
Contributions/Premiums	-	-	114,458	(94)	114,364
Payroll Taxes	-	-	-	46,439	46,439
Other Operating Revenues	698	30	482	-	1,210
Total Operating Revenues	39,504	317	148,101	47,509	235,431
OPERATING EXPENSES:					
Personal Services	408	55	6,672	1,116	8,251
Contractual Services	1,800	48	2,772	274	4,894
Supplies/Materials	14	2	249	38	303
Benefits/Claims (Note 3)	-	-	(29,833)	(24,689)	(54,522)
Depreciation	24	1	471	-	496
Amortization	13	-	36	-	49
Utilities/Rent	35	-	150	27	212
Communications	21	4	459	83	567
Travel	46	22	113	11	192
Repair/Maintenance	49	-	129	22	200
Interest Expense	32,260	-	-	8,921	41,181
Arbitrage Rebate Tax	119	-	-	56	175
Other Operating Expenses	41	10	5,063	1,141	6,255
Total Operating Expenses	34,830	142	(13,719)	(13,000)	8,253
Operating Income (Loss)	4,674	175	161,820	60,509	227,178
NONOPERATING REVENUES (EXPENSES):					
Gain (Loss) Sale of Fixed Assets	-	-	1	-	1
Total Nonoperating Revenues (Expenses)	-	-	1	-	1
Income (Loss) Before Extraordinary Items	4,674	175	161,821	60,509	227,179
Loss on Debt Extinguishment (Note 12)	-	-	-	(1,709)	(1,709)
Net Income (Loss)	4,674	175	161,821	58,800	225,470
RETAINED EARNINGS - JULY 1 -	79,913	973	58,013	(413,938)	(275,039)
RETAINED EARNINGS - JUNE 30	$ 84,587	$ 1,148	$ 219,834	$ (355,138)	$ (49,569)

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Cash Flows
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Sales and Services	$ 38	$ 259	$ 113,008	$ (22)	$ 113,283
Collections of Principal and Interest on Loans	71,126	106	-	-	71,232
Cash Payments for Loans	(57,242)	-	-	-	(57,242)
Payments to Suppliers for Goods and Services	(2,005)	(79)	(5,327)	(1,023)	(8,434)
Payments to Employees	(377)	(55)	(7,000)	(1,120)	(8,552)
Cash Payments for Claims	-	-	(71,452)	(22,300)	(93,752)
Collection of Notes Receivable	-	-	-	(36)	(36)
Collection of Payroll Taxes	-	-	-	43,258	43,258
Other Operating Revenues	698	-	482	-	1,180
Net Cash Provided by (Used for) Operating Activities	12,238	231	29,711	18,757	60,937
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Payment of Principal and Interest on Bonds and Notes	(105,142)	-	-	(45,759)	(150,901)
Proceeds from Issuance of Bonds and Notes	89,856	-	-	-	89,856
Payment of Bond Issuance Costs	(1,493)	-	-	-	(1,493)
Transfers to Other Funds	-	-	-	(638)	(638)
Transfers from Other Funds	-	-	-	(114)	(114)
Transfers from Primary Government	-	-	-	27,426	27,426
Net Cash Provided by (Used for) Noncapital Financing Activities	(16,779)	-	-	(19,085)	(35,864)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of Fixed Assets	(68)	(6)	(2,114)	-	(2,188)
Proceeds from Sale of Fixed Assets	-	-	3	-	3
Net Cash Used for Capital and Related Financing Activities	(68)	(6)	(2,111)	-	(2,185)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(795,697)	(606)	(216,601)	(5,038)	(1,017,942)
Proceeds from Sales or Maturities of Investments	790,311	200	153,290	4,627	948,428
Interest and Dividends on Investments	11,604	29	32,421	1,487	45,541
Arbitrage Rebate Tax	(206)	-	-	-	(206)
Net Cash Provided by (Used for) Investing Activities	6,012	(377)	(30,890)	1,076	(24,179)
Net Increase (Decrease) in Cash and Cash Equivalents	1,403	(152)	(3,290)	748	(1,291)
Cash and Cash Equivalents, July 1	3,112	391	40,767	6,987	51,257
Cash and Cash Equivalents, June 30	$ 4,515	$ 239	$ 37,477	$ 7,735	$ 49,966

The notes to the financial statements are an integral part of this statement.

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)	$ 4,674	$ 175	$ 161,820	$ 60,509	$ 227,178
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	24	1	471	-	496
Amortization	13	-	36	-	49
Interest Expense	32,260	-	-	8,921	41,181
Interest on Investments	(11,161)	(40)	(33,125)	(1,164)	(45,490)
Arbitrage Rebate Tax	119	-	-	56	175
Change in Assets and Liabilities:					
Decr (Incr) in Accounts Receivable	1	2	5,908	(3,051)	2,860
Decr (Incr) in Due From Other Funds	-	-	272	71	343
Decr (Incr) in Due From Primary Government	-	-	(24)	(287)	(311)
Decr (Incr) in Inventories	-	-	15	-	15
Decr (Incr) in Long-Term Loans/Notes Receivable	(13,700)	87	-	-	(13,613)
Decr (Incr) in Other Assets	(64)	-	815	65	816
Incr (Decr) in Accounts Payable	10	(1)	(110)	(42)	(143)
Incr (Decr) in Due to Other Funds	4	-	(104)	523	423
Incr (Decr) in Due to Primary Government	4	6	19	(113)	(84)
Incr (Decr) in Deferred Revenue	46	-	(4,074)	228	(3,800)
Incr (Decr) in Property Held in Trust	-	-	(806)	-	(806)
Incr (Decr) in Compensated Absences Payable	8	1	(42)	(13)	(46)
Incr (Decr) in Estimated Insurance Claims	-	-	(101,360)	(46,946)	(148,306)
Net Cash Provided by (Used for) Operating Activities	$ 12,238	$ 231	$ 29,711	$ 18,757	$ 60,937

STATE OF MONTANA
Statement of Plan Net Assets
Component Unit - Pension Trust Fund
June 30, 1996
(Expressed in Thousands)

	TRS
ASSETS:	
Cash/Cash Equivalents (Note 4)	$ 47,155
Receivables (Net):	
Employer Contributions	4,262
Employee Contributions	3,901
Interest	6,591
Other Receivables	46
Due from Primary Government (Note 13)	14
Due from Other Funds (Note 13)	522
Investments, at Fair Value:	
Equity in Pooled Investments (Note 4)	1,304,496
Other Investments (Note 4)	96,186
Land	35
Buildings/Improvements	158
Equipment	208
Accumulated Depreciation	(214)
Intangible Assets	97
TOTAL ASSETS	$ 1,463,457
LIABILITIES/FUND BALANCES:	
Accounts Payable	$ 292
Due to Primary Government (Note 13)	27
Due to Other Governments	3
Due to Other Funds (Note 13)	10
Lease/Installment Purch. Payable (Note 11)	31
Property Held in Trust	7
Compensated Absences Payable (Note 1)	36
Total Liabilities	406
Fund Balances Reserved for Employees' Pension Benefits	1,463,051
TOTAL LIABILITIES/FUND BALANCES	$ 1,463,457

STATE OF MONTANA
Combining Statement of Changes in Plan Net Assets
Pension Trust Funds and Discretely Presented Component Unit
For the Fiscal Year Ended June 30, 1996
(Expressed In Thousands)

	PERS	MUNICIPAL POLICE	FIRE-FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES	GAME WARDENS	VOLUNTEER FIRE-FIGHTERS	TOTAL PRIMARY GOVT	COMP UNIT TRS
ADDITIONS:										
Charges for Services	$ 5	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5	$ -
Contributions/Premiums:										
Employer	41,881	6,650	6,111	1,558	2,541	1,128	230	862	60,961	40,627
Employee	43,524	1,643	1,066	1,538	621	203	227	-	48,822	39,174
Other Contributions	190	-	-	4	-	-	-	-	194	190
Net Investment Earnings:										
Investment Earnings	194,815	7,188	6,651	7,306	5,162	2,803	2,116	899	226,940	162,742
Administrative Investment Expense	(866)	(23)	(20)	(24)	(17)	(10)	(6)	(4)	(970)	(719)
Other Additions	5	-	-	-	-	-	-	-	5	16
Total Additions	279,554	15,458	13,808	10,382	8,307	4,124	2,567	1,757	335,957	242,030
DEDUCTIONS:										
Benefits	80,240	6,839	5,755	1,294	3,435	1,174	1,093	737	100,567	83,763
Refunds	10,417	114	29	322	68	-	-	-	10,950	4,159
Administrative Expenses:										
Personal Services	572	-	-	-	-	-	-	-	572	335
Contractual Services	378	-	-	-	-	-	-	-	378	156
Supplies/Materials	41	-	-	-	-	-	-	-	41	23
Depreciation	20	-	-	-	-	-	-	-	20	23
Amortization	1	-	-	-	-	-	-	-	1	30
Utilities/Rent	12	-	-	-	-	-	-	-	12	24
Communications	53	-	-	-	-	-	-	-	53	39
Travel	21	-	-	-	-	-	-	-	21	13
Repair/Maintenance	7	-	-	-	-	-	-	-	7	29
Interest Expense	-	-	-	-	-	-	-	-	-	5
Other Operating Expenses	-	31	26	22	14	342	5	22	462	9
Local Assistance	-	-	-	-	-	-	-	15	15	-
Loss on Sale of Fixed Assets	6	-	-	-	-	-	-	-	6	-
Total Deductions	91,768	6,984	5,810	1,638	3,517	1,516	1,098	774	113,105	88,608
Net Increase (Decrease)	187,786	8,474	7,998	8,744	4,790	2,608	1,469	983	222,852	153,422
FUND BALANCES - JULY 1 - As Previously Reported	1,276,897	57,610	56,473	55,526	38,928	20,401	14,949	9,970	1,530,754	1,067,111
Prior Period Adjustments	284,993	7,976	6,913	8,476	6,491	3,562	2,948	551	321,910	242,518
FUND BALANCES - JULY 1 - As Restated	1,561,890	65,586	63,386	64,002	45,419	23,963	17,897	10,521	1,852,664	1,309,629
FUND BALANCES - JUNE 30	$ 1,749,676	$ 74,060	$ 71,384	$ 72,746	$ 50,209	$ 26,571	$ 19,366	$ 11,504	$ 2,075,516	$ 1,463,051

STATE OF MONTANA
Combining Balance Sheet
Component Units - All Higher Education Funds
June 30, 1996
(Expressed In Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
ASSETS:				
Cash/Cash Equivalents	$ 14,236	$ 16,892	$ 10,951	$ 2,005
Receivables (Net)	2,872	516	834	9,091
Interfund Loans Receivable (Note 13)	700	2,065	-	-
Due from Other Governments	3	2	-	3,955
Due from Primary Government (Note 13)	15	131	91	1,049
Due from Other Funds (Note 13)	5,408	4,286	425	207
Inventories	93	1,593	2,417	-
Equity in Pooled Investments	-	-	-	-
Long-Term Notes/Loans Receivable	-	-	-	-
Advances to Other Funds	-	-	14	-
Investments (Note 4)	-	-	-	2
Land	-	-	-	-
Buildings/Improvements	-	-	-	-
Equipment	-	-	-	-
Other Fixed Assets	-	-	-	-
Construction in Progress	-	-	-	-
Intangible Assets	-	-	-	-
Deferred Charges	-	-	-	-
Other Assets	2,690	895	22	173
TOTAL ASSETS	$ 26,017	$ 26,380	$ 14,754	$ 16,482
LIABILITIES/FUND BALANCES:				
Liabilities:				
Accounts Payable	$ 11,968	$ 3,740	$ 1,632	$ 2,994
Interfund Loans Payable (Note 13)	-	-	-	2,500
Advances from Other Funds	-	25	16	14
Due to Other Governments	292	13	-	20
Due to Primary Government (Note 13)	1,144	257	22	45
Due to Other Funds (Note 13)	4,036	2,255	1,324	4,587
Deferred Revenue	5,337	1,243	668	3,770
Lease/Installment Purchase Payable (Note 11)	-	-	-	-
Bonds/Notes Payable (Note 12)	76	5	5	-
Property Held in Trust	184	58	356	156
Compensated Absences Payable (Note 1)	20,269	4,347	1,643	131
Total Liabilities	43,306	11,943	5,666	14,217
Fund Balances:				
Net Investment in Plant	-	-	-	-
Reserved For:				
Encumbrances	1,198	89	-	34
Student Loans/Endowments	-	-	-	-
Construction	-	-	-	-
Unreserved	(18,487)	14,348	9,088	2,231
Total Fund Balances	(17,289)	14,437	9,088	2,265
TOTAL LIABILITIES/FUND BALANCES	$ 26,017	$ 26,380	$ 14,754	$ 16,482

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS			PLANT FUNDS				
STUDENT LOANS	ENDOWMENTS	AGENCY	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	TOTALS
$ 3,123	$ 2,327	$ 2,583	$ 43,379	$ 13,174	$ 4,389	$ -	$ 113,059
24,496	12	81	329	66	75	-	38,372
-	-	-	-	-	-	-	2,765
7	-	-	-	-	-	-	3,967
5	-	20	262	1	318	-	1,892
14	-	4,052	292	664	1,045	-	16,393
-	-	-	-	-	-	-	4,103
-	2,388	42	-	-	-	-	2,430
-	-	-	51	-	-	-	51
-	-	-	16	172	285	-	487
-	706	-	1,034	1,955	-	-	3,697
-	-	-	-	-	-	13,293	13,293
-	-	-	-	-	-	303,733	303,733
-	-	-	-	-	-	127,276	127,276
-	-	-	-	-	-	74,149	74,149
-	-	-	55,193	2,384	-	23,294	80,871
-	-	-	-	-	-	2,247	2,247
-	-	-	-	-	1,790	-	1,790
-	-	262	68	3	-	-	4,113
$ 27,645	$ 5,433	$ 7,040	$ 100,624	$ 18,419	$ 7,902	$ 543,992	$ 794,688
$ 5	$ -	$ 690	$ 2,330	$ 477	$ 1,347	$ -	$ 25,183
-	-	-	265	-	-	-	2,765
-	-	-	-	432	-	-	487
-	-	211	-	-	-	-	536
-	-	745	139	5	-	-	2,357
274	38	1,492	234	362	462	-	15,064
-	-	-	66	88	60	-	11,232
-	-	-	-	-	-	1,802	1,802
-	-	-	71,868	225	2,194	67,753	142,126
-	-	3,902	-	-	-	-	4,656
-	-	-	-	-	-	-	26,390
279	38	7,040	74,902	1,589	4,063	69,555	232,598
-	-	-	-	-	-	474,437	474,437
-	-	-	11	7	-	-	1,339
25,341	4,452	-	-	-	-	-	29,793
-	-	-	12,361	1,261	-	-	13,622
2,025	943	-	13,350	15,562	3,839	-	42,899
27,366	5,395	-	25,722	16,830	3,839	474,437	562,090
$ 27,645	$ 5,433	$ 7,040	$ 100,624	$ 18,419	$ 7,902	$ 543,992	$ 794,688

STATE OF MONTANA
Statement of Changes in Fund Balance
Component Units - All Higher Education Funds
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES/OTHER ADDITIONS:				
Tuition/Fees	$ 80,912	$ 10,831	$ 8,685	$ 3
Federal Grants/Contracts	4,301	46	-	90,576
State Grants/Contracts	-	448	-	8,703
Local Grants/Contracts	-	-	-	1,408
Private Gifts/Grants/Donations	-	797	1	13,620
Endowment Income	-	-	-	77
Sales/Services-Educational Activities	855	1,768	1	101
Sales/Services-Designated/Auxiliary Enterprises	1	21,027	45,640	77
Indirect Costs Recovered	224	7,733	-	-
Investment Earnings	100	127	848	244
Acquisition of Long-Lived Assets	-	-	-	-
Retirement of Indebtedness	-	-	-	-
Other Revenues/Additions	190	3,247	555	349
Total Revenues/Other Additions	86,583	46,024	55,730	115,158
Intrafund Revenues/Other Additions	(4)	(7)	-	(547)
Net Revenues/Other Additions	86,579	48,017	55,730	114,611
EXPENDITURES/OTHER DEDUCTIONS:				
Instruction	95,825	5,354	4	4,781
Research	11,307	7,141	-	35,224
Public Service	5,954	4,663	-	15,671
Academic Support	16,776	9,470	-	2,047
Student Services	15,375	10,991	-	3,901
Institutional Support	16,006	2,652	-	521
Independent Operations	1,911	-	-	-
Scholarships/Fellowships	6,928	269	-	49,284
Auxiliary Enterprises	-	20	45,792	104
Operation/Maintenance of Plant	21,245	39	-	97
Expended for Plant	-	-	-	-
Debt Services	106	227	130	22
Capital Outlay	6,946	3,237	413	3,737
Disposal of Long-Lived Assets	-	-	-	-
Debt Incurred	-	-	-	-
Other Expenditures/Deductions	1,073	3	85	46
Total Expenditures/Other Deductions	199,452	44,066	48,424	115,435
Intrafund Expenditures/Other Deductions	(4)	(7)	-	(547)
Net Expenditures/Other Deductions	199,448	44,059	46,424	114,888
TRANSFERS IN (OUT)/OTHER ADDITIONS (DEDUCTIONS):				
Transfers from State General Fund	95,880	-	-	-
Millage Transfers	15,079	-	-	-
Mandatory Transfers	707	(407)	(6,633)	1
Nonmandatory Transfers	(568)	(1,012)	(1,997)	168
Transfers from Primary Government	-	-	215	-
Total Transfers In (Out) (Note 13)	111,098	(1,419)	(8,415)	169
Move Equity to Investment in Plant	-	-	-	-
Loan Proceeds	-	-	-	-
Bond Proceeds	-	-	-	-
Total Transfers In (Out)/Other Additions (Deductions)	111,098	(1,419)	(8,415)	169
Net Increase (Decrease) in Fund Balances	(1,771)	539	891	(108)
FUND BALANCES - July 1 - As Previously Reported	(15,519)	13,896	8,197	2,375
Prior Period Adjustments (Note 3)	1	-	-	-
FUND BALANCES - July 1 - As Restated	(15,518)	13,896	6,197	2,375
Residual Equity Transfers (Note 13)	-	2	-	(2)
FUND BALANCES - June 30	$ (17,289)	$ 14,437	$ 9,088	$ 2,265

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS		PLANT FUNDS			
STUDENT LOANS	ENDOWMENTS	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
$ -	$ -	$ 1,999	$ 1,129	$ 2,419	$ -
909	-	-	143	23	-
151	-	-	-	-	-
-	-	-	-	-	-
10	69	3,406	154	-	-
-	34	-	-	-	-
-	-	-	-	-	-
-	-	17	56	2	-
-	-	-	-	-	-
433	847	2,163	620	473	-
-	-	-	-	-	69,161
-	-	-	-	-	5,199
506	-	2,647	1,535	70	-
2,009	950	10,234	3,637	2,967	74,380
-	-	-	(115)	(32)	-
2,009	950	10,234	3,522	2,955	74,380
-	-	58	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
146	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1,292	4,246	19	-
-	-	1,135	220	17,237	-
-	-	4,408	4,070	-	-
-	-	-	-	-	49,890
-	-	-	-	-	5,196
547	-	-	-	-	-
693	-	6,893	6,536	17,256	55,086
-	-	-	(115)	(32)	-
693	-	6,693	6,421	17,224	55,086
-	-	20	9	-	-
-	-	-	-	-	-
-	-	(930)	(611)	6,865	-
(13)	(513)	25	7,223	(2,661)	-
-	-	746	13	654	-
(13)	(513)	(139)	6,634	8,838	-
-	-	1,762	347	10	-
-	-	220	-	-	-
-	-	-	-	5,585	-
(13)	(513)	1,843	6,961	12,433	-
1,303	437	5,184	2,062	(1,636)	19,294
26,047	5,100	20,535	14,751	5,675	455,143
16	(142)	-	-	-	-
26,063	4,958	20,535	14,751	5,675	455,143
-	-	3	(3)	-	-
$ 27,366	$ 5,395	$ 25,722	$ 16,830	$ 3,839	$ 474,437

STATE OF MONTANA
Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes
Component Units - Higher Education Fund Type
For the Fiscal Year Ended June 30, 1996
(Expressed In Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES:				
Tuition/Fees	$ 80,912	$ 10,831	$ 8,685	$ 3
Federal Grants/Contracts	4,301	46	-	90,576
State Grants/Contracts	-	448	-	8,703
Local Grants/Contracts	-	-	-	1,408
Private Gifts/Grants/Donations	-	797	1	13,620
Endowment Income	-	-	-	77
Sales/Services-Educational Activities	855	1,768	1	101
Sales/Services-Designated/Auxiliary Enterprises	1	21,027	45,640	77
Indirect Costs Recovered	224	7,733	-	-
Investment Earnings	100	127	848	244
Other Revenues	190	3,247	555	349
Total Revenues	86,583	46,024	55,730	115,158
Intrafund Revenues	(4)	(7)	-	(547)
Net Revenues	86,579	46,017	55,730	114,611
EXPENDITURES:				
Educational and General:				
Instruction	95,825	5,354	4	4,781
Research	11,307	7,141	-	35,224
Public Service	5,954	4,663	-	15,671
Academic Support	16,776	9,470	-	2,047
Student Services	15,375	10,991	-	3,901
Institutional Support	16,006	2,652	-	521
Scholarships/Fellowships	6,928	269	-	49,284
Operation/Maintenance of Plant	21,245	39	-	97
Other Expenditures	1,073	3	85	46
Total Educational and General Expenditures	190,489	40,582	89	111,572
Intrafund Expenditures	(4)	(7)	-	(547)
Net Educational and General Expenditures	190,485	40,575	89	111,025
Auxiliary Enterprises	-	20	45,792	104
Independent Operations	1,911	-	-	-
Debt Services	106	227	130	22
Capital Outlay	6,946	3,237	413	3,737
Total Expenditures	199,448	44,059	46,424	114,888
TRANSFERS IN (OUT):				
Transfers from State General Fund	95,880	-	-	-
Millage Transfers	15,079	-	-	-
Mandatory Transfers	707	(407)	(6,633)	1
Nonmandatory Transfers	(568)	(1,012)	(1,998)	168
Transfers from Primary Government	-	-	215	-
Total Transfers In (Out) (Note 13)	111,098	(1,419)	(8,416)	169
Net Increase (Decrease) in Fund Balances	$ (1,771)	$ 539	$ 890	$ (108)

The notes to the financial statements are an integral part of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of the Higher Education Funds have been prepared in conformity with GAAP for colleges and universities as prescribed by the American Institute of Certified Public Accountants.

A. Reporting Entity - For financial reporting purposes, the State of Montana has included all funds and account groups which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete Component Units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The Component Units columns of the combined financial statements include the financial data of these entities:

Housing Authority (Proprietary Fund Type) - This Authority is a quasi-judicial board, consisting of seven members appointed by the Governor, created in 1975 to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $975,000,000. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited annually by the Legislative Auditor and its report is issued under separate cover.

Health Facilities Authority (Proprietary Fund Type) - This Authority is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. Its purpose is to contain future health care costs by offering debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. The Board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited by the Legislative Auditor every two years and its report is issued under separate cover.

State Compensation Insurance Fund (New and Old) (Proprietary Fund Type) - The Fund is a quasi-governmental corporation governed by a five member board appointed by the Governor. The Fund provides workers' compensation insurance. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990, and is financed by a .5 percent tax on each employer as well as a .2 percent tax on employee wages and distributive income of sole proprietors and subchapter S shareholders. Administrative operations and budgets are reviewed by the Governor and the Legislature. The Fund is audited annually by the Legislative Auditor and its report is issued under separate cover.

Teachers' Retirement System (Pension Trust Fund) - This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers' Retirement Division are paid from interest earnings of the fund. The system is funded from employer and employee contributions and interest earnings. The system is audited annually by the Legislative Auditor and its report is issued under separate cover.

Universities and Colleges (Higher Education Funds) - The State Board of Regents has responsibility for the following institutions: University of Montana-Missoula and the units under it including Montana Tech of the University of Montana, Western Montana College of the University of Montana, the Colleges of Technology at Helena and Missoula and the Division of Technology at Butte; and Montana State University-Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Colleges of Technology located in Billings and Great Falls. All units are funded through State appropriations, tuition, federal grants, and private donations and grants. The units are audited by the Legislative Auditor every two years and their reports are issued under separate cover.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; and both (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation, and (3) private foundations supporting public education, over which the State exercises neither financial nor administrative control (see Note 19). Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund.

B. Fund Structure - The State uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The financial activities of the State of Montana are classified into fund categories and account groups as described below:

GOVERNMENTAL FUNDS

General Fund - To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds - To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds - To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

PROPRIETARY FUNDS

Enterprise Funds - To account for operations (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; or (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Internal Service Funds - To account for the financing of goods and services provided by one department or agency to other departments, agencies or other governmental entities on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (1) Expendable Trust Funds; (2) Nonexpendable Trust Funds; (3) Pension Trust Funds; and (4) Agency Funds.

ACCOUNT GROUPS

General Fixed Assets Account Group - To account for all fixed assets of the State, except those accounted for in the Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

General Long-Term Obligations Account Group - To account for all long-term obligations of the State, except those accounted for in Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

HIGHER EDUCATION (UNIVERSITY AND COLLEGE) FUNDS

Current Funds

Unrestricted

General Operating - To account for the portion of financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature.

Designated - To account for those resources associated with general operations which are separately classified in order to accumulate costs recharged to other funds and to identify special activities of educational departments which are supported by supplemental assessments and the receipt and disposition of special supply and facility fees which are approved for collection beyond normal course fees.

Auxiliary - To account for those financial resources devoted to providing essential on-campus services primarily to students, faculty or staff where a fee relating to the service is charged.

Restricted - To account for the portion of financial resources that can be expended only for purposes imposed by sources external to the Board of Regents and the legislature.

Fiduciary Funds

Student Loans - To account for moneys which may be loaned to students, faculty or staff for purposes related to education, organized research or public services by the higher education units.

Endowments - To account for moneys where the principal is available for investment. Investment earnings are to be transferred to (or recorded directly in) appropriate operating funds pursuant to prevailing administrative requirements.

Agency - To account for moneys where the State acts in the capacity of a custodian or fiscal agent for individual students, faculty, staff or qualified organizations.

Plant Funds

Unexpended - To account for unexpended resources derived from various sources which are used to finance the acquisition/construction of plant assets and the associated liabilities.

Renewal and Replacement - To account for resources used to provide for the renewal and replacement of plant fund assets as distinguished from additions and improvements.

Retirement of Indebtedness - To account for resources accumulated for interest and principal payments and other debt service charges, including contributions to reserves, relating to plant fund indebtedness.

Investment in Plant - To account for all long-lived assets in the service of the higher education unit as well as all associated liabilities.

C. Basis of Accounting - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a spending or "financial flow" measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed in the Governmental Funds and Expendable Trust Funds and in the Agency Funds for the purpose of asset and liability recognition. Under the modified accrual basis, revenues are susceptible to accrual and recognized when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures incurred. Intergovernmental revenues received but not earned are recorded as deferred revenues. All other revenue including taxes on coal sales, gas and oil production, individual income and other self-assessed taxes is considered available if due within 60 days of fiscal year-end. Based on historical analysis, a liability has been recognized for collected withholding taxes to be refunded in fiscal year 1997. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

(1) principal and interest on long-term debt is recognized when due;
(2) prepayments are accounted for as expenditures in the period of acquisition; and
(3) inventory items are considered expenditures when purchased.

All Proprietary, Pension Trust and Nonexpendable Trust Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means all assets and liabilities associated with these activities are included on their balance sheets. Operating statements for these funds present increases (revenues) and decreases (expenses) in net total assets.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds are maintained and reported on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. In Higher Education Funds, depreciation expense related to plant fund assets is not recorded; student tuition and fees are fully recognized in the fiscal year in which the related courses or activities are principally conducted. Unbilled receivables of Proprietary and Higher Education Funds are recognized as revenue.

Significant intrafund transactions and balances have been eliminated.

D. Proprietary Activity Accounting and Financial Reporting - Activities accounted for in the state's proprietary, nonexpendable trust and pension trust funds and proprietary type component units follow all applicable GASB pronouncements and those private sector pronouncements issued on or before November 30, 1989.

E. Cash/Cash Equivalents - For all funds, except the Housing Authority in the Component Unit Proprietary Funds, cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit (See Note 4).

F. Receivables - This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 1996, is $20.51 million.

G. Inventories - Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental and Expendable Trust Funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute "available spendable resources." An exception is the food stamp inventory balance in the special revenue fund which is offset by deferred revenue per GASB Statement 24.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds report using the "consumption method," meaning inventories are expensed as used.

H. Investments - In accordance with the statutorily mandated "Prudent Expert Principle", the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. All investments, except the deferred compensation plan investments and pension plan investments are reported at cost or amortized cost in the balance sheet. The deferred compensation plan investments and pension plan investments are carried at market value. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 4 on Cash/Cash Equivalents and Investments).

I. Deferred Charges - Unamortized bond issuance costs are reported in this category.

J. Deferred Revenue - Deferred revenues are those for which asset recognition criteria have been met but for which revenue recognition criteria have not been met.

K. Compensated Absences - Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. For fiscal year 1996, 1,303 hours were contributed to the sick leave pool and 839 hours were withdrawn leaving a balance of 5,067 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave of Proprietary and Pension Trust Funds is recorded as an expense and liability of those funds; for higher education the expense and liability is recorded in the current unrestricted funds as the benefits accrue to employees. The liability amount recorded in the General Long-Term Obligations Account Group is not expected to be liquidated with expendable financial resources, thus no expenditure or liability is reported in the governmental funds. Upon retirement or termination, an employee is paid for 100 per cent of unused vacation leave and 25 per cent of unused sick leave.

As of June 30, 1996, the State's liability for unused vacation and sick leave for Higher Education Funds was $26,390,000. The leave liabilities for the remaining agencies at June 30, 1996, were $48,071,000, an increase of $2,931,000 over the June 30, 1995, leave liability of $45,140,000. The following table reflects the change (in thousands):

	Balance July 1, 1995	Leave Earned	Leave Used	Balance June 30, 1996
PRIMARY GOVERNMENT				
Governmental Fund Types and Similar Trust Funds	$ 40,850	$ 24,947	$ 21,855	$ 43,942
Proprietary Fund Types and Similar Trust Funds	3,504	1,773	1,890	3,387
Total	$ 44,354	$ 26,720	$ 23,745	$ 47,329
COMPONENT UNITS				
Propriety Fund Types and Similar Trust Funds	786	469	513	742
Total Non-Higher Education Funds	$ 45,140	$ 27,189	$ 24,258	$ 48,071

L. Encumbrances - For budget control purposes, the State utilizes encumbrance accounting, under which purchase orders, contracts and other commitments are recorded as expenditures and liabilities in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at fiscal year-end are reported as reservations of fund balances for subsequent year expenditures.

M. Fund Balance/Retained Earnings Reserves - Portions of fund equity are reported as "reserved" to indicate (1) amounts not available for expenditure, such as equity represented by inventories; and (2) amounts legally segregated for a specific future use, such as those pledged for debt service and retirement benefits or legally-binding contractual agreements.

N. Property Taxes - Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collectible within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded in Receivables (Net of Uncollectibles).

Personal property tax levies are set each August and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due.

Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

O. **Other Taxes** - On the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for All Governmental Fund Types and Expendable Trust Funds, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Exp. Trust Fund
Video Gaming	$10,736	$ (152)	$ -	$ -	$23,000
Insurance Premium	23,119	9,808	-	-	-
University System Millage	-	15,337	-	-	-
Cigarette/Tobacco	-	1,725	10,531	2,281	-
Inheritance/Estate	15,404	-	-	-	-
Accommodations	127	8,479	-	-	-
Alcoholic Beverage	2,219	2,467	-	-	-
Miscellaneous	11,348	12,582	-	-	-
TOTAL OTHER TAXES	$62,953	$50,246	$10,531	$2,281	$23,000

2. BUDGETARY REPORTING

A. **State Budget Process** - Montana prepares two annual budgets biennially in the odd-numbered years when the legislature meets. The constitution requires that legislative appropriations not exceed available revenues. The legislature only utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the General, Special Revenue and Capital Projects Funds, except for those State Special Revenue Funds which receive donations. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the legislative fiscal division. The Governor and budget director establish priorities and balance the budget. The Governor's budget is submitted to the legislative fiscal division which prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill making all appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. Additionally, the Governor, or his designee, may approve budget amendments for non-general fund moneys not available for consideration by the legislature and for emergencies. In the accompanying financial statements, reported budget amounts are as amended. Budget amendments authorized for fiscal year 1996 were not material. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Fund balances/retained earnings are not reserved for reverted appropriations. For fiscal year 1996, reverted appropriations for all funds were $180.6 million of which $12.3 million were for the General Fund and $57.2 million were for the Special Revenue Fund. Beginning with fiscal year 1994, agencies have the opportunity to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Because appropriations for Capital Projects Funds are not made on an annual basis, activities for the Capital Projects Funds are not presented in the Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance.

B. **Budget Basis** - The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in Proprietary Funds; compensated absences and inventories purchased in Higher Education Funds; certain loans from Governmental Funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.). The General and Special Revenue Fund Type budgetary statement includes a reconciliation of unreserved fund balance between "Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses" on the budgetary basis and the GAAP basis.

3. OTHER ACCOUNTING ISSUES

A. Accounting and Reporting Changes

The State made changes in its accounting and reporting practices to enhance conformance with GAAP. Except for the changes highlighted below, all changes reported in the accompanying financial statements that resulted in the restatement of beginning fund equity were made to correct errors of prior periods.

Effective in fiscal year 1996, statute requires that certain tax revenues collected by the State and required to be distributed to local government entities be accounted for in a fiduciary fund instead of the state special revenue fund. As a result of the change, approximately $14.849 million and $61.860 million in tax revenues previously accounted for in the state special revenue fund were accounted for in the agency fund and expendable trust fund, respectively.

The State implemented GASB Statement 24 - Accounting and Financial Reporting for Certain Grants and Other Financial Assistance. The implementation of GASB 24 resulted in the recording of $58.8 million in food stamp receipts and disbursements and $23.5 million in food stamp inventory and deferred revenue in the federal special revenue fund that had not been reported within the financial statements in prior years. In addition, the receipt and distribution of $57.5 million in federal assistance to the schools and $0.3 million in Taylor Grazing fees was accounted for in the federal special revenue fund rather than the agency fund type, as in prior years. These federal grant monies could no longer be accounted for as "pass-through" per GASB 24.

The State implemented GASB Statement 25 - Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and GASB Statement 27 - Accounting for Pensions by State and Local Governmental Employers. The implementation of these two statements resulted in the recording of a prior period adjustment of $321.9 million in the pension trust funds and $242.5 million in the component unit pension trust fund in order to restate beginning fund balance as a result of recording investments at market rather than cost.

B. Other

The Benefits/Claims expenditure amount of $(54.522) million reported in the Component Units column in the combined proprietary fund operating statement consists of the amount of benefits paid and the actuarially determined change in estimated claims liability for the State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). The amounts for each fund are broken down as follows:

	STATE COMPENSATION INSURANCE NEW FUND	 OLD FUND
Benefit and Loss Adjustment Exp.	$ 71,527	$ 22,257
Decr. in Actuarially Estimated Claims	(101,360)	(46,946)
Total Benefits/Claims	$ (29,833)	$(24,689)

4. CASH/CASH EQUIVALENTS AND INVESTMENTS

This footnote details the following balance sheet classifications (in thousands):

Cash/Cash Equivalents	$ 1,502,629
Equity in Pooled Investments	$ 4,133,291
Investments	$ 1,187,334

Carrying amounts and market values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 4. Information in Tables 3 and 4 does not tie directly to the amounts reported in the GPFS since certain funds' investments and equity in pooled investments are reported at market value in the GPFS as required by GASB Statement 25 while other funds' investment amounts are reported at book value.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account there is a short term investment pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short term, highly liquid investments, the individual funds' investment in the STIP are reported as a cash equivalent.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State. **Category 1** consists of deposits that are insured or collateralized with securities held by the state or by its agent in the state's name. **Category 2** consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the state's name. **Category 3** deposits are uncollateralized. The State's Cash Deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments and Table 4 - Investments to disclose the level of risk assumed by the State at fiscal year-end.

Category 1 includes investments that are insured or registered securities held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments in which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments in which the securities are held by the counterparty, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments are classified in Category 3 at fiscal year-end.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities in addition to other long term investment securities to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc.. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91 day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. Their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero Coupon Bonds and Preferred Stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons), DECS (Dividend Enhanced Common Stock) and ACES (Automatically Convertible Equity Securities). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS and ACES are issued, and traded, at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated "investment grade" at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

With the exception of the S & A Restaurants Corp., there are no legal risks, as of June 30, 1996, that the State is aware of regarding any investments. As of June 30, 1996, S & A Restaurants Corp. was restructuring its debt. Due to possible bankruptcy if the restructuring was not completed, the State discontinued accruing income on this security effective February 15, 1996. On August 1, 1996, the company completed its corporate debt restructuring. On August 15, 1996, the Board of Investments received interest due for February 15 through August 14, 1996. Given the restructuring and receipt of the August 15, 1996 payment, the state permitted the security to accrue income. At amortized cost, the Trust Fund Bond Pool (TFBP) and Retirement Fund Bond Pool (RFBP) own $4,000,000 and $11,000,000, respectively, of S & A Restaurants Corp., 11.15% First Mortgage Bonds, maturing August 15, 1998. These bonds are backed by U.S. government securities.

As of June 30, 1995, the El Paso Electric Company, presented a legal risk to the State. This legal risk was reported in the June 30, 1995, CAFR financial statements. El Paso Electric Company declared bankruptcy in January 1992. Per the January 1992 bankruptcy order, the company paid its monthly interest payments. In 1995, the company began merger negotiations with another company. In June 1995, these negotiations ceased. Effective June 1995, the First Mortgage bond holders were notified the June monthly interest payment and subsequent interest payments would not be paid until further notice. On September 8, 1995, the Board received $35,164, in interest for June 1 through August 31, 1995. The June 30, 1995, par value, plus accrued interest and premium, was paid in full on February 26, 1996.

(3) Under a security lending agreement with the State's agent, all of the State's investments may be loaned. The agent must maintain collateral equal to 102% of the market value of the securities on loan. The State retains all rights and risks of ownership for the loaned securities.

B. Cash/Cash Equivalents

(1) Cash Deposits - The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, State statutes require collateralization at 50% of the bank balance. The Cash Deposit amounts include both Primary Government and Component Unit deposits.

TABLE 1 - CASH DEPOSITS (In Thousands)

Risk Category		Carrying Amount	Bank Balance	Fund
1	Insured (FDIC)	$ 1,228	$ 1,228	Various
	Collateral held by State/State's agent	16,389	16,389	Various
2		9,652	9,652	Various
3		13,580	13,580	Various
Uncategorized:				
	Undeposited Cash	368		
	Cash in U.S. Treasury	111,965		
	Less: Outstanding Warrants	(45,931)		
TOTAL CASH DEPOSITS		$107,251		

As of June 30, 1996, the carrying amount of deposits for component units was $42,923,430 and the bank balance was $42,678,986. Of the bank balance, $42,657,908 was fully insured or collateralized with securities held by the component units or their agent's in the unit's name and $21,078 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) Cash Equivalents - consists of cash in the State Treasury invested by individual funds in the Short Term Investment Pool (STIP) and the Treasurer's Cash Pool in identifiable securities and investments considered to be cash equivalents. Cash equivalents, except for the Housing Authority in the Component Unit Proprietary Fund, generally are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit. Cash equivalents may be under the control of the Board of Investments (the Board) or other agencies, as allowed by law.

TABLE 2 - CASH EQUIVALENTS (In Thousands)

	Risk Categories		Carrying Amount	Market Value	Fund
	1	2*			
Asset-Backed Securities	$ 234,352	$ -	$ 234,352	$ 234,329	Various
Bankers' Acceptances	59,929	-	59,929	59,920	Various
Commercial Paper	35,550	-	35,550	35,545	Various
Corporate Obligations	173,248	-	173,248	172,891	Various
Government Securities	253,878	177,124	431,002	429,155	Various
Repurchase Agreements	100,000	-	100,000	100,000	Various
Variable-Rate	311,174	-	311,174	311,229	Various
Direct Investments:					
Money Markets			45,678	45,678	Various
Guaranteed Investment Contracts			4,439	4,439	Various
Other			6	6	Various
TOTAL CASH EQUIVALENTS			$1,395,378	$1,393,192	

* At June 30, 1996, these securities with a market value of $175,993,091 were loaned under a security lending agreement with the State's agent.

As of June 30, 1996, local governments invested $299,714,087 in the STIP.

As of June 30, 1996, component units of the State of Montana had investments in cash equivalents with a book value and market value of $209,110,851.

C. **Equity in Pooled Investments** - Consists of investments held by pooled investment funds. The Montana Common Stock Pool (MONTCOMP), Trust Fund Bond Pool (TFBP), and Retirement Funds Bond Pool (RFBP) were created to allow qualifying funds to participate in diversified investment pools. Participation is restricted to expendable trust, nonexpendable trust, pension trust and higher education endowment and trust funds. Purchases are subject to statutory restrictions for quality and size of holdings.

TABLE 3 - EQUITY IN POOLED INVESTMENTS (In Thousands)

	Risk Categories 1	Risk Categories 2*	Carrying Amount	Market Value
MONTCOMP:				
Corporate Stocks	$ 804,353	$ 118,759	$ 923,112	$ 1,236,626
Preferred Stocks	16,638	3,004	19,642	19,446
Convertible Bonds	17,155	901	18,056	17,953
Zero Coupon Bonds	6,964	-	6,964	6,730
TFBP:				
Corporate Asset Backed	25,905	-	25,905	25,799
Corporate Stocks	449,126	8,821	457,947	467,026
US Govt. Mortgage Backed	50,404	-	50,404	49,759
US Govt. Direct	42,215	163,661	205,876	207,458
Yankee Bonds	53,088	2,070	55,158	57,798
State and Local Government	8,947	-	8,947	8,901
RFBP:				
Corporate Asset Backed	91,334	-	91,334	91,511
Corporate Stocks	819,745	15,367	835,112	848,319
US Govt. Mortgage Backed	115,757	-	115,757	117,302
US Govt. Direct	144,520	338,836	483,356	485,182
Yankee Bonds	107,466	1,276	108,742	111,685
TOTAL EQUITY IN POOLED INVESTMENTS	$2,753,617	$652,695	$3,406,312	$3,751,495

* At June 30, 1996, these securities with a market value of $661,674,291 were on loan under a security lending agreement with the State's agent.

As of June 30, 1996, component units of the State of Montana had equity in pooled investments with a book value of $995,304,738 and a market value of $1,307,012,830.

D. **Investments** - Long-term investments are primarily administered by three state agencies. Article 8 of Montana's Constitution, with supporting statutes, authorizes the Board of Investments to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the Board. The Board, as the State's primary administrator of long-term investments, actively manages 75% of those investments; the Board of Housing, 14%; and the Department of Administration's Personnel Division, 10% for the State's Deferred Compensation Plan. Additionally, the Higher Education Units manage 1% of total investments for bond related activities.

The Board must employ the "Prudent Expert Rule" in managing the State's investment portfolio. The funds carry equity securities at cost and debt securities at amortized cost. Deferred compensation plan and pension plan investments are carried at market.

The Board of Investments continued to invest in leveraged buyouts and venture capital in fiscal year 1996. The Board's total leveraged buyout commitment, administered by Kohlberg, Kravis, Roberts and Companies, amounts to $50,000,000. The leveraged buyout invested balance for the pension funds amounted to $38,869,130 on June 30, 1996.

For the purpose of portfolio diversification, the Board has committed $27,618,000 for venture capital investments administered by Brinson Partners. The June 30, 1996, venture capital invested balance totaled $7,591,498 for the Teachers' Retirement and $9,278,498 for the Public Employees' Retirement systems.

In September 1991, the board committed $5,000,000 per year for the next five years to invest in mortgage servicing rights. As of June 30, 1996, the invested balance in America's Mortgage Servicing, Inc., totaled $450,000 for the Teachers' Retirement and $550,000 for the Public Employees' Retirement systems.

TABLE 4 - INVESTMENTS (RISK CATEGORIES) (In Thousands)

Security Type	Categories 1	Categories 2	Carrying Amount	Market Value
PRIMARY GOVERNMENT				
Corporate Bonds	$ 7,275	$ 99	$ 7,374	$ 7,426
Corporate Asset-Backed	6,974	-	6,974	6,936
Government Securities	23,413	34,526	57,939	69,608
Government Mortgage-Backed	-	-	-	-
Other	700	-	700	734
Total	$ 38,362	$ 34,625	$ 72,987	$ 84,704

Security Type	Categories 1	2	Carrying Amount	Market Value
COMPONENT UNITS				
Corporate Bonds	$ 158,372	$ 7,582	$ 165,954	$ 166,776
Corporate Asset-Backed	64,208	-	64,208	63,892
Government Securities	67,816	238,490	306,306	295,125
Government Mortgage-Backed	41,651	-	41,651	41,262
Other	9,437	68,369	77,806	78,568
Total	341,484	314,441	655,925	645,623
TOTAL	$ 379,846	$ 349,066	$ 728,912	$ 730,327
Direct Investments:				
PRIMARY GOVERNMENT				
Real Estate			$ 2,432	$ 2, 519
Commercial Loans			108,447	108,287
Mortgages			84,722	81,909
Other			32,761	46,279
Deferred Compensation			122,528	122,528
Total			$ 350,890	$ 361,522
COMPONENT UNITS				
Real Estate			$ 2,432	$ 2,519
Commercial Loans			2,891	2,779
Mortgages			59,337	57,367
Other			24,686	34,256
Total			89,346	96,921
TOTAL INVESTMENTS			$1,169,148	$1,188,770

At June 30, 1996, the Board of Investments had securities in Risk Category 2 with a market value of $34,714,703 and $153,686,372 for the primary government and component units, respectively, on loan under a security lending agreement with the State's agent.

5. FIXED ASSETS

Fixed asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure fixed assets and interest expenditures for general fixed assets are not capitalized. Infrastructure assets of primary government and component unit proprietary activities are capitalized. Interest incurred during the construction of fixed assets for proprietary funds and higher education units is capitalized.

Fixed assets are not depreciated in the General Fixed Asset Account Group. Purchases of such assets are recorded as expenditures in the appropriate governmental fund. Fixed assets in Proprietary, Nonexpendable Trust and Pension Trust Funds are accounted for within their respective funds and are depreciated. Expendable Trust Funds do not report fixed assets within their funds because the assets are purchased by other funds. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 20 years for improvements and 3 to 10 years for equipment. Fixed assets and intangible assets for Higher Education units are accounted for in the Investment in Plant Fund and are not depreciated.

Intrafund transfers of fixed assets have not been eliminated in the table below except for the effects of transfers resulting from agency reorganizations in which entire programs and the corresponding fixed assets were transferred to new agencies created from the consolidation of several previously existing agencies. Eliminations due to agency reorganizations were made only for those transfers in which the fixed assets were moved within the same function or activity. Eliminations were not made for transfers resulting from reorganizations in which the fixed assets were moved to a new function or activity. Transfers between functions in the General Fixed Asset Account Group amounted to Land - $1,091,203, Buildings - $47,692,448 and Equipment - $2,629,066.

Changes in fixed asset balances for the fiscal year ended June 30, 1996, are reflected in the following table (in thousands):

PRIMARY GOVERNMENT

	Balance July 1, 1995	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1996
PROPRIETARY FUNDS				
Land	$ 1,036	$ 102	$ -	$ 1,138
Buildings/Improvements	4,487	1,030	78	5,439
Equipment	130,747	12,534	12,007	131,274
Other Fixed Assets	249	1,148	-	1,397
Construction in Progress	448	2,715	2,810	353
Subtotal/Total	136,967	$ 17,529	$ 14,895	139,601
Accumulated Depreciation	(76,741)			(76,992)
Total	$ 60,226			$ 62,609

	Balance July 1, 1995	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1996
NONEXPENDABLE TRUST FUNDS				
Land	$ 49,399	$ -	$ -	$ 49,399
PENSION TRUST FUNDS				
Land	$ 25	$ -	$ -	$ 25
Buildings/Improvements	277	-	-	277
Equipment	105	47	19	133
Subtotal/Total	407	$ 47	$ 19	435
Accumulated Depreciation	(184)			(191)
Total	$ 223			$ 244
GENERAL FIXED ASSETS ACCOUNT GROUP				
Land	$ 57,826	$ 2,967	$ 1,720	$ 59,073
Buildings/Improvements	250,856	102,690	60,184	293,362
Equipment	92,468	26,596	13,069	105,995
Other Fixed Assets	44,356	213	131	44,438
Construction in Progress	7,257	1,126	600	7,783
Total	$ 452,763	$133,592	$ 75,704	$ 510,651

COMPONENT UNITS

	Balance July 1, 1995	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1996
PROPRIETARY FUNDS				
Equipment	$ 3,468	$ 355	$ 19	$ 3,804
Accumulated Depreciation	(1,240)			(1,736)
Total	$ 2,228			$ 2,068
PENSION TRUST FUND				
Land	$ 35	$ -	$ -	$ 35
Buildings/Improvements	158	-	-	158
Equipment	170	39	1	208
Subtotal/Total	363	$ 39	$ 1	401
Accumulated Depreciation	(191)			(214)
Total	$ 172			$ 187
HIGHER EDUCATION FUNDS				
Land	$ 12,397	$ 896	$ -	$ 13,293
Buildings/Improvements	298,232	8,202	2,701	303,733
Equipment	118,729	17,848	9,301	127,276
Other Fixed Assets	70,549	4,377	777	74,149
Construction in Progress	51,579	29,626	334	80,871
Intangible Assets	2,357	264	374	2,247
Total	$ 553,843	$ 61,213	$ 13,487	$ 601,569

6. RETIREMENT SYSTEMS

DEFINED CONTRIBUTION PLAN

Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP participate in the Teachers' Retirement System, a defined benefit plan discussed in the next section. Beginning July 1, 1993, membership in the ORP is mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These moneys are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Approximately 1,431 employees are members of the ORP. Required employee contributions are 7.044% of salary and required employer contributions are 4.956% of salary for a total of 12% of salary contributed to the ORP.

	TIAA-CREF (in thousands)
Covered Payroll	$ 48,236
Total Payroll	190,527
Employer Contributions	$ 2,391
Percent of Covered Payroll	4.956%
Employee Contributions	$ 3,398
Percent of Covered Payroll	7.044%

DEFINED BENEFIT PLANS

A. General

The Public Employees' Retirement Division administers eight defined benefit plans - Public Employees' Retirement System (PERS), Highway Patrol Officers' Retirement System (HPORS), Judges' Retirement System (JRS), Game Wardens' Retirement System (GWRS), Sheriffs' Retirement System (SRS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and Volunteer Firefighters' Compensation Act (VFCA). The division prepares a publicly issued financial report that includes financial statements and required supplementary information for PERS, HPORS, JRS, GWRS, SRS, MPORS, FURS, and VFCA. That report may be obtained by writing to the Department of Administration, Public Employees' Retirement Division, P.O. Box 200131, Helena, Montana 59620-0131.

The Teachers' Retirement Division administers one defined benefit plan - Teachers' Retirement System (TRS). The publicly issued financial report that includes financial statements and required supplementary information for TRS may be obtained by writing to the Department of Administration, Teachers' Retirement Division, P.O. Box 200139, Helena, Montana 59620-0139.

PERS, HPORS, JRS, GWRS, SRS, MPORS, FURS and VFCA are considered part of the state of Montana's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the trust and agency fund type.

TRS is considered part of the state of Montana's financial reporting entity and is included in the accompanying financial statements as a discretely presented component unit Pension Trust Fund.

A summary of government employers participating in PERS, SRS, MPORS, FURS and TRS by employer type at June 30, 1996 follows:

	Retirement System				
	PERS	SRS	MPORS	FURS	TRS
Employers					
State Agencies	38				6
Counties	55	55			
Cities/Towns	86		19	14	
Colleges/Universities	6				13
School Districts	232				396
Other	75				
Total	492	55	19	14	415

B. Plan Descriptions

The State contributes to and/or administers eight retirement systems and one pension plan in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination (except VFCA) and disability benefits. All systems (except VFCA) provide post-retirement benefits. Post-retirement benefits for the GWRS, PERS, TRS and SRS are based on investment yield, retirees' total years of service, age and option chosen at the time of retirement. Post-retirement adjustments are made only in years when funding is available and do not increase the unfunded liability of the system. The post-retirement benefits of each of the remaining systems are included in the plan descriptions below.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry age normal funding method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period not to exceed 40 years.

(1) State as the Single Employer

HPORS - Highway Patrol Officers' Retirement System - This system, established in 1971 and governed by Title 19, Chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all uniformed members of the Montana Highway Patrol, including supervisory personnel. Member and State contributions are 9% and 36.28%, respectively, of total salaries of active highway patrol officers. For members hired on or before July 1, 1985, there is no minimum age, but minimum service is 20 years for benefit eligibility. A member hired after July 1, 1985, must be 50 years old and have 20 years of creditable service for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the final average salary. Post-retirement benefits are in the form of minimum benefit supplements which ensure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, will also receive a lump sum payment. This lump sum payment is funded by a registration fee of 25 cents per vehicle license. Rights are vested after five years of service.

JRS - Judges' Retirement System - This system, established in 1967 and governed by Title 19, Chapters 2 & 5 of the MCA, provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salary and the State contributes 6% of active judges' salaries, district court fees equal to 34.71% of members' salaries, and 25% of Supreme Court fees. For benefit eligibility, minimum service is 5 years and minimum age is 65. The monthly retirement benefit formula is 3 1/3% times the number of years of service (to a maximum of 15 years) times 1/12 the current annual salary, plus 1.785% of such salary for each year of service after 15 years. JRS retirees receive increases in benefits at the same rate as salary increases are granted to active members through legislative action. Rights are vested after five years of creditable service. The current actuarial valuation indicates a material increase in retirees which increases the inactive liability resulting in a longer period of time being required to fund that liability. During the year ended June 30, 1996, actual contributions did not cover the year's normal cost.

GWRS - Game Wardens' Retirement System - This system, established in 1963 and governed by Title 19, Chapters 2 & 8 of the MCA, provides retirement services for all persons employed as a game warden, including all supervisory personnel. The member contributes 7.9% of salary and the State contributes 8.15% of active game wardens's salaries, plus all collections from fines and forfeited bonds related to fish and game law violations. For benefit eligibility, minimum age is 50 and minimum years of service are 20. A member may retire with ten years of service at age 55. The yearly retirement benefit formula is 2% times the number of years of service times the final average salary. Investment earnings in excess of 8%, if any, are used to provide post-retirement increases. Rights are vested after ten years of service.

(2) State as an Employer Contributor to a Cost-Sharing Multiple-Employer

PERS - Public Employees' Retirement System - This mandatory system, established in 1945 and governed by Title 19, Chapters 2 & 3 of the MCA, provides retirement services to substantially all public employees not covered by another public system. The contribution rate is 6.70% of gross wages for both employees and employers. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking the greater of: (1) 1/56 times the number of years of service times the final average salary times any early retirement reduction if necessary or (2) a monthly annuity that is the actuarial equivalent of twice the member's accumulated regular contributions. Investment earnings in excess of 8%, if any, are used to provide post-retirement increases based on members' years of service, age and option chosen at the time of retirement. Members' rights are vested after 5 years of service.

TRS - Teachers' Retirement System - This mandatory system, established in 1937 and governed by Title 19, Chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system. Member and employer contributions are 7.044% and 7.47%, respectively, of gross salaries. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for annual benefits is 1/60 times creditable service years times the final average compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

SRS - Sheriffs' Retirement System - This system, established in 1974 and governed by Title 19, Chapters 2 & 7 of the MCA, covers all sheriffs, as well as all State Department of Justice investigators hired after July 1, 1993. The member contribution is 7.865% of salary; the employer contribution is 8.535% of salary. Minimum years of service for normal service retirement eligibility are 20. The service retirement benefit is calculated at 2.0834% of the final average salary for each year of creditable service. Reduced benefits for early retirement may be taken with a minimum of 15 years of service and a minimum age of 50. Investment earnings in excess of 8%, if any, are used to provide post-employment increases. Rights are vested after 5 years of service if involuntarily terminated, and after 15 years if termination is voluntary.

(3) State as a Nonemployer Contributor to a Cost-Sharing Multiple-Employer

MPORS - Municipal Police Officers' Retirement System - The system, established in 1975 and governed by Title 19, Chapters 2 & 9 of the MCA, covers all municipal police officers of cities covered by the plan. The member contribution is 7.8% of salary for members employed prior to July 1, 1975; 9% of salary for members employed after June 30, 1975, and prior to July 1, 1979; and 10.5% of salary for members employed after June 30, 1979. City contributions are 14.36% of active police officers' salaries. The State contributes 15.66% of active police officers' salaries. The State's contribution is funded from the premium tax on motor vehicle property and casualty insurance policies. Minimum years of service are 10 for benefit eligibility at age 50, or 20 years of service at any age. The service retirement benefit is 2.5% times the number of years of service times the final average salary. The post-retirement benefit is the amount needed to ensure that the retiree's benefit is no less than 50% of the base salary of a newly confirmed police officer. These post-retirement benefits are paid directly by the insurance premium tax fund and are in addition to the actuarially determined contributions to the system. Rights are vested after ten years of service.

FURS - Firefighters' Unified Retirement System - This system, established in 1981 and governed by Title 19, Chapters 2 & 13 of the MCA, provides retirement benefits for all paid firefighters. The member contribution is 7.8% of base compensation, and city contributions are 14.36% of total annual compensation. The State contribution is 24.21% of total annual compensation for all firefighters and is paid out of the insurance premium tax fund. Minimum age is 50 and minimum service is 10 years for benefit eligibility. For members hired prior to July 1, 1981, with at least 20 years of service, the monthly service retirement benefit is equal to ½ of the final monthly compensation received plus an additional 2% for each year in excess of 20 years. Members hired on or after July 1, 1981 receive a service retirement benefit equal to 2% of final average salary for each year of service. Post-retirement benefits require that each retiree receive at least 50% of the salary paid a newly confirmed active firefighter. The cost of this adjustment for members retired prior to July 1, 1973 and for members hired on or after July 1, 1981 is paid from the fire insurance premium tax fund, provided funds are available. Rights are vested after ten years of service.

(4) State as a Nonemployer Contributor

VFCA - Volunteer Firefighters' Compensation Act - This compensation program, established in 1965 and governed by Title 19, Chapter 17 of the MCA, provides medical benefits and pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. The State contribution is 5% of fire insurance premium taxes collected. This retirement system is required by law to be fully funded and cannot pay benefits unless money is available. Rights are vested after 10 years of qualified service.

C. Summary of Significant Accounting Policies

The defined benefit plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the retirement systems. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various pricing services. The retirement systems have no investments of any commercial or industrial organization whose market value equals 5 percent or more of the retirement systems' net assets available for benefits.

E. Long-Term Contracts for Contributions

The Public Employees' Retirement System has outstanding contributions for two early retirement programs:

The 1993 Montana Legislature enacted House Bill 517–Retirement Incentive Program (RIP) providing PERS members (eligible for a service retirement) an incentive to terminate between June 25, 1993 and December 31, 1993. Local government employers participated through election on or before June 1, 1993. The employer purchased, on the member's behalf, up to three years of "1-for-5" additional service for any retirement eligible member who terminated employment during the window. A total of 898 members took advantage of the program (630 from 32 state agencies, 95 from 6 universities, and 173 from 48 local government agencies).

The 1995 Montana Legislature provided a new provision of the Employee Protection Act (HB 490) allowing state employees (eligible for a service retirement) whose positions have been eliminated on or before June 30, 1997 to have their employer purchase up to three years of "1-for-5" additional service. As of June 30, 1996, 50 employees have taken advantage of this provision.

The employer has up to 10 years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received (including interest) during fiscal year 1996 were $590,937. Fiscal Year 1996 outstanding balances were $834,735 (HB 517), and $50,403 (HB 490).

F. Actuarial Data

Actuarial valuations are performed every two years. Hendrickson, Miller & Associates Inc., Helena, MT, prepared the actuary reports for the retirement systems, excluding TRS. Milliman & Robertson, Inc., of Seattle, WA., performed the actuarial valuation for TRS.

G. Net Pension Obligation

Judges' Retirement System (JRS) net pension obligation (NPO) for fiscal year 1996 (in thousands):

Annual required contribution	$ 1,165
Interest on NPO	192
Adjustment to the annual required contribution	(265)
Annual pension cost	1,092
Contribution made	(752)
Increase in NPO	340
NPO beginning of year	2,398
NPO end of year	$ 2,738

H. Funding Policy and Annual Pension Cost

The following tables provide information concerning funding policies and annual pension costs (in thousands):

Single Employer Systems			
	HPORS	JRS	GWRS
Annual pension cost	$ 3,163	$ 1,092	$ 457
Contributions			
Employer	$ 1,632	$ 174	$ 230
Employee	621	203	227
License and Registration fees	910	-	-
Court fee	-	614	-
Actuarial valuation date	7/01/96	7/01/96	7/01/96
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	20.4	15.82	None
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market
Actuarial Assumptions:			
Investment rate of return	8.00%	8.00%	8.00%
Projected salary increases (includes inflation factor)	6.00%	6.00%	6.00%
Postretirement benefit increases	None	None	None

Single Employer Systems			
Year Ending	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
HPORS			
06/30/96	$ 3,163	100%	NONE
JRS			
06/30/96	$ 1,092	90.75%	$2,738
GWRS			
06/30/96	$ 457	100%	NONE

Multiple Employer Systems			
Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
PERS			
06/30/94	$ 88,957	100%	NONE
06/30/95	80,653	100%	NONE
06/30/96	85,405	100%	NONE
MPORS			
06/30/94	$ 5,404	100%	NONE
06/30/95	6,382	100%	NONE
06/30/96	6,388	100%	NONE
FURS			
06/30/94	$ 5,099	100%	NONE
06/30/95	5,605	100%	NONE
06/30/96	6,118	100%	NONE
SRS			
06/30/94	$ 2,396	100%	NONE
06/30/95	2,599	100%	NONE
06/30/96	3,096	100%	NONE
TRS			
06/30/94	$ 77,913	100%	NONE
06/30/95	76,855	100%	NONE
06/30/96	79,801	100%	NONE

I. Schedules of Funding Progress

Single Employer Systems						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
07/01/92	$33,711	$57,447	$23,736	58.68%	$5,575	425.74%
07/01/94	40,466	63,327	22,861	63.90%	5,650	404.60%
07/01/96	47,325	67,709	20,384	69.90%	6,242	326.57%
JRS						
07/01/92	$17,354	$20,432	$ 3,078	84.94%	$2,502	123.00%
07/01/94	21,281	23,171	1,890	91.84%	2,777	68.06%
07/01/96	24,944	27,723	2,779	89.98%	2,907	95.61%
GWRS						
07/01/92	$13,925	$14,608	$ 682	95.33%	$2,466	27.68%
07/01/94	16,297	16,389	92	99.44%	2,494	3.70%
07/01/96	18,160	17,325	-	104.82%	2,762	-

Multiple Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
PERS						
07/01/92	$1,133,202	$1,410,298	$277,097	80.35%	$548,153	50.55%
07/01/94	1,366,864	1,625,720	258,856	84.08%	572,974	45.18%
07/01/96	1,629,706	1,826,207	196,500	89.24%	608,592	32.29%
MPORS						
07/01/92	$ 44,048	$ 79,398	$ 35,351	55.48%	$ 11,403	310.02%
07/01/94	56,209	90,507	34,298	62.10%	13,395	256.05%
07/01/96	70,068	105,664	35,596	66.31%	15,828	224.90%
FURS						
07/01/92	$ 44,159	$ 100,607	$ 56,449	43.89%	$ 10,883	518.68%
07/01/94	54,647	113,153	58,506	48.29%	12,424	470.90%
07/01/96	67,745	131,111	63,366	51.67%	13,783	459.75%
SRS						
07/01/92	$ 44,114	$ 34,260	-	128.76%	$ 13,688	-
07/01/94	55,220	42,978	-	128.48%	15,869	-
07/01/96	68,647	52,751	-	130.13%	17,890	-
TRS						
07/01/92	$ 954,542	$1,533,883	$579,341	62.2%	$465,063	124.5%
07/01/94	1,157,512	1,712,933	555,421	67.6%	472,860	117.4%
07/01/96	1,376,716	1,939,569	562,853	71.0%	501,466	112.3%

Nonemployer Contributor

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
VFCA						
07/01/93	$ 8,760	$15,211	$6,451	57.59%	N/A	N/A
07/01/96	11,504	16,636	5,132	69.15%	N/A	N/A

7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Federal Consolidated Omnibus Reconciliation Act (COBRA) to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are receiving employee health care benefits at the time they discontinue State employment and (2) dependents who lose dependent eligibility. At June 30, 1996, 114 individuals were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established premiums vary between $97 and $306 per month depending on the medical plan selected, family coverage and Medicare eligibility. The State acts as secondary payor for Medicare-eligible claimants. As of June 30, 1996, 2,790 retirees were receiving health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-payments of the members' selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of $9,562,328 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to $7,142,284 leaving $2,420,044 of claims in excess of premium revenue that was paid by the State.

In accordance with 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS), or an annuity under the Optional Retirement Plan (ORP). Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between $120 and $338 per month and are revised annually. Medicare eligible plan members are assumed to be Medicare-insured. After an annual $250 deductible, MUS reimburses 80% of the first $3,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursements for members eligible for Medicare even if the member is not enrolled in Medicare. As of June 1996, 1,193 retirees are enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 1996, estimated expenditures of $2,636,934 were recognized for postemployment health care benefits. Of this amount, $2,342,793, was covered by premiums paid by retirees and $294,141 was paid by the MUS.

8. DEFERRED COMPENSATION PLAN

Since 1976, the State of Montana has offered a deferred compensation plan which allows employees to set aside a portion of their salary each payday towards retirement while deferring the State and Federal income taxes until future years. The payroll deferrals are invested with Nationwide Insurance. All employees of the State are eligible to participate. The plan operates under the sanction of both State and Federal laws (Title 19, Chapter 50, MCA, and Section 457 of the Internal Revenue Code). The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. In the past, the plan assets have been used for no purpose other than to pay benefits. The State believes it is unlikely it will use the assets to satisfy the claims of general creditors in the future because of the contractual arrangement with Nationwide Insurance and the State's obligation to participants for their account balance. State statute provides that the State and its political subdivisions are not liable for any investment losses incurred by any eligible deferred compensation plan. However, the State does have the duty of care required of an ordinary prudent investor. As of June 30, 1996, the net assets of the plan available for benefits totaled $122,607 million.

9. RISK MANAGEMENT

There are two Primary Government public entity risk pools and two Component Unit public entity risk pools that are reported within the Enterprise Fund Type: Primary Government pools include Hail Insurance and Subsequent Injury Funds; Component Unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are three Primary Government Other Than Public Entity Risk Pools reported within the Internal Service Fund Type: Group Employees Comprehensive Medical and Dental Plan, Montana University System (MUS) Group Benefits Plan and Property and Casualty Insurance Plans. In all of these funds there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. None of these funds have acquisition costs; therefore, no cost is amortized for the period. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at amortized cost. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance - Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the hail insurance program. The Hail Insurance program issued 2,337 policies during the 1996 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a refund. Anticipated investment income is considered in computing a premium deficiency of which there is none.

A claim must be submitted to the State Board of Hail Insurance within fourteen days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of $618,297 based on claims submitted for losses through June 30, 1996. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Subsequent Injury - This fund provides benefits to workers certified as vocationally handicapped who are injured on the job and entitled to benefits under the Workers' Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104 week time period. In Montana, there are 1,947 individuals certified as vocationally handicapped.

Workers' compensation insurance premium experience modification factors are influenced by the 2 year limitation and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring the certified vocationally handicapped.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed an amount of up to 5% of each insurer's compensation payments for the previous fiscal year. An estimated liability is recorded based on a projected cost (case-by-case) analysis of each injured, certified, vocationally handicapped worker. As of June 30, 1996, the amount of this liability is estimated to be $1,022,177.

(3) State Compensation Insurance (New Fund) - Liability coverage to employers for injured employees who are insured under the Workers' Compensation and Occupational Disease Acts of Montana and workers' compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund must insure any employer who desires coverage. At fiscal year-end, approximately 25,403 employers were insured with the New Fund. Montana state governmental agencies must obtain their workers' compensation coverage through the New Fund. Anticipated investment income is considered for computing a premium deficiency and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1996, has estimated liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. At June 30, 1996, $402,714,180 of unpaid claims and claim adjustment expenses are presented at their net present value of $294,477,691. These claims are discounted at an annual rate of 5.75%.

The New Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer. The New Fund did not deduct any claim liabilities related to potential reinsurance recoverable. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis; all liability of the New Fund is terminated.

Statute requires the New Fund set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect.

(4) State Compensation Insurance (Old Fund) - The liability and payment of workers' compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund. Funding for claim payments is provided by old fund liability taxes (OFLT) imposed on employers' payroll (0.5%), employees' wages (0.2%) and sole proprietors and subchapter S shareholders' distributive income (0.2%). The OFLT will provide funding for old fund claims and bond payments (see Note 12 G(3)). An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1996, was used to estimate liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. At June 30, 1996, $248,802,467 of unpaid claims and claim adjustment expenses are presented at face value. This fund generates little interest earnings, does not discount estimated claims liabilities, and does not compute a premium deficiency (See Note 14).

(5) Changes in Claims Liabilities For the Past Two Years - As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

Primary Government	HAIL INSURANCE		SUBSEQUENT INJURY	
	1996	1995	1996	1995
Unpaid claims and claim adjustment expenses at beginning of year	$ 643	$ 708	$ 1,039	$ 968
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	3,116	1,023	-	-
Increase (Decrease) in provision for insured events of prior years	4	(350)	333	165
Total incurred claims and claim adjustment expenses	3,120	673	333	165

Primary Government	HAIL INSURANCE		SUBSEQUENT INJURY	
	1996	1995	1996	1995
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(2,498)	(380)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(647)	(358)	(350)	(94)
Total payment	(3,145)	(738)	(350)	(94)
Total unpaid claims and claim adjust. exp. at end of the year	$ 618	$ 643	$1,022	$ 1,039

Component Units	STATE COMPENSATION INSURANCE (NEW FUND)		STATE COMPENSATION INSURANCE (OLD FUND)	
	1996	1995	1996	1995
Unpaid claims and claim adjustment expenses at beginning of year	$541,374	$509,020	$295,749	$339,485
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	102,102	173,327	-	-
Increase (Decrease) in provision for insured events of prior years	(169,235)	(63,249)	(24,688)	(3,795)
Total incurred claims and claim adjustment expenses	(67,133)	110,078	(24,688)	(3,795)
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(15,818)	(18,137)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(55,709)	(59,587)	(22,259)	(39,941)
Total payment	(71,527)	(77,724)	(22,259)	(39,941)
Total unpaid claims and claim adjust. exp. at end of the year	$402,714	$541,374	$248,802	$295,749

(6) Risk Management Trend Information

The following table only presents risk management trend information for the State Compensation Insurance (New Fund). Only the New Fund has a three to five year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services; its funding source is the old fund liability tax. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the New Fund and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 5 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 6 compares the latest reestimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be expanded and revised as data for successive policy years develops.

	STATE COMPENSATION INSURANCE (NEW FUND)					
	1991	1992	1993	1994	1995	1996
1. Net earned required contribution and investment revenues	$ 114,800	$147,848	$188,877	$200,866	$167,721	$116,054
2. Unallocated expenses including overhead	6,048	8,232	9,325	9,090	11,303	16,114
3. Estimated incurred claims and expenses, end of policy year	137,237	183,425	186,480	199,890	173,327	102,102
4. Paid (cumulative) as of:						
End of policy year	17,618	20,244	18,347	18,693	18,137	15,818
One year later	44,335	50,576	46,343	45,947	40,473	
Two years later	64,079	68,837	62,717	61,971		
Three years later	74,901	77,950	71,666			
Four years later	81,747	83,173				
Five years later	85,924					
5. Reestimated incurred claims and expense:						
End of policy year	137,237	183,425	186,480	199,890	173,327	102,102
One year later	166,980	184,968	184,030	184,920	124,123	
Two years later	160,272	175,218	167,052	135,472		
Three years later	151,554	161,184	133,017			
Four years later	141,389	135,775				
Five years later	130,250					
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	(6,987)	(47,650)	(53,463)	(64,418)	(49,204)	

B. Other Than Public Entity Risk Pools

(1) Group Employee Comprehensive Medical and Dental Plan - This plan is fully self-insured, with the State assuming all the risk for claims incurred by employees of the State, elected officials, retirees and their dependents. There is no third party coverage. Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement Division and self-payment and are recorded as revenue in the Employees' Group Benefits Internal Service Fund. At June 30, 1996, estimates for claims liabilities, which include incurred but not reported claims, are $6,958,904 and are based on a formula provided by Martin E. Segal Company, a consulting actuarial firm. A liability is recorded in the accompanying financial statements for these estimated claims.

(2) Montana University System (MUS) Group Benefits Plan - This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, the Montana Higher Education Student Assistance Corporation (MHESAC), and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured. United of Omaha is the claims administrator on the plan. Managed Care Montana (Blue Cross/Blue Shield of Montana) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Internal Service Fund. The claims liability is estimated to be $3,100,000 as of June 30, 1996, based on prior year experience. A liability is recorded in the accompanying financial statements for these estimated claims.

(3) Property & Casualty Insurance Plans - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, retail liquor stores inventory and State-administered foreclosure housing units. The State self-insures the $150,000 deductible per occurrence for most property insurance as well as various deductible amounts for other state property. The state also self-insures against losses of equipment below $150,000 of value, with state agencies paying the first $1,000. Commercial property insurance protects approximately $1.8 billion of state-owned buildings and contents. The state property insurance includes earthquake and flood protection to $100 million annually with deductibles of $1 million for earthquake and $500,000 for flood per occurrence. Premiums are collected from all State agencies including Component Units and recorded as revenue in the Administration Insurance Internal Service Fund.

A biennial actuarial study, prepared by Tillinghast, a Towers Perrin Company, and issued for the accident period 7/1/88 through 6/30/96, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 1996, estimated claims liability of $14,979,997, discounted at 14%, includes those claims incurred but not reported and is recorded in the accompanying financial statements (See Note 14).

(4) Changes in Claims Liabilities For the Past Two Years - These funds establish liabilities for both reported and incurred but not reported claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Medical & Dental		MUS Group Benefits		Prop. & Casualty Insurance	
	1996	1995	1996	1995	1996	1995
Amount of claims liabilities at the beginning of each fiscal year	$ 6,760	$ 6,117	$ 3,200	$ 3,200	$19,329	$17,421
Incurred claims:						
Provision for insured events of the current year	38,372	35,306	18,264	16,983	5,326	6,584
Increases (Decreases) in provision for insured events of prior years	199	643	(100)	-	(5,418)	(498)
Total incurred claims	38,571	35,949	18,164	16,983	(92)	6,086
Payments:						
Claims attributable to insured events of the current year	(38,372)	(35,306)	(18,264)	(16,983)	(920)	(1,146)
Claims attritutable to insured events of prior years	-	-	-	-	(3,337)	(3,032)
Total Payments	(38,372)	(35,306)	(18,264)	(16,983)	(4,257)	(4,178)
Total claims liability at end of each fiscal year	$ 6,959	$ 6,760	$ 3,100	$ 3,200	$14,980	$19,329

10. COMMITMENTS

A. **Highway Construction** - At June 30, 1996, the Department of Transportation had contractual commitments of approximately $117.4 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. **Capital Construction** - At June 30, 1996, the Department of Administration, Architecture & Engineering Division, had commitments of approximately $16.1 million for capital projects construction. The Primary Government will fund $14.2 million of these projects with the remaining $1.9 million coming from higher education funds.

C. **Proprietary Fund Commitments** - Budgets are administratively established in the Enterprise and Internal Service Funds, excluding depreciation, compensated absences and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unreserved retained earnings in the accompanying financial statements as follows (in thousands):

PRIMARY GOVERNMENT

Enterprise Funds	AMOUNT
Liquor Stores	$ 17
Hail Insurance	4
State Lottery	58
Uninsured Employers	3
Historical Society Publications	7
Local Government Audits	6
Subtotal-Enterprise Funds	$ 95
Internal Service Funds	
Highway Equipment	$ 1,145
ISD	401
FWP Equipment	54
Admin. Property & Supply	66
Publications & Graphics	153
Buildings & Grounds	51
Labor Central Services	5
Commerce Central Services	53
DEQ Indirect Cost Pool	98
PHHS Indirect Cost Plan	46
FWP Warehouse Inventory	9
Aircraft Operation	15
Investment Division	25
OPI Central Services	2
Records Management	5
Admin. DP Unit	2
Subtotal-Internal Service Funds	$ 2,130
Total-Primary Government	$ 2,225

COMPONENT UNITS

Housing Authority	$ 18
State Compensation Insurance (New Fund)	685
Subtotal-Component Units	$ 703
Total- Proprietary Fund Types-Reporting Entity	$ 2,928

11. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases - Changes in capitalized leases/installment purchases follow (in thousands):

Primary Government	Balance July 1, 1995	Additions (Deductions)	Balance June 30, 1996
General Long-Term Obligations	$ 1,248	$ 829*	$ 2,077
Proprietary Fund Types			
Enterprise Fund	$ 56	$ (46)	$ 10
Internal Service Fund	1,056	1,279	2,335
Total Proprietary	1,112	1,233	2,345
Total-Primary Government	$ 2,360	$ 2,062	$ 4,422
Component Units			
Pension Trust Fund	$ 87	$ (56)	$ 31
Higher Education Funds	2,247	(445)	1,802
Total-Component Units	$ 2,334	$ (501)	$ 1,833
Total Capitalized Leases/ Installment Purchases	$ 4,694	$ 1,561	$ 6,255

*This amount consists of $1,928,000 of additions as inceptions; $83,000 of additions as adjustments; and $1,182,000 as deductions.

Future minimum lease payments under capital leases/installment purchases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government General Long-Term Obligations	Proprietary Fund Types Enterprise	Proprietary Fund Types Internal Service	Component Units Pension Trust	Component Units Higher Education Funds	Totals
1997	$ 785	$ 11	$ 1,102	$ 33	$ 788	$ 2,719
1998	704	-	899	-	654	2,257
1999	509	-	400	-	434	1,343
2000	384	-	119	-	131	634
2001	37	-	-	-	29	66
2002+	-	-	-	-	4	4
Total minimum pmts	$ 2,419	$ 11	$ 2,520	$ 33	$ 2,040	$ 7,023
Less: Interest	(342)	(1)	(185)	(2)	(238)	(768)
Present value of minimum payments	$ 2,077	$ 10	$ 2,335	$ 31	$ 1,802	$ 6,255

B. Operating Leases - Total rental payments for operating leases in fiscal year 1996 were $6,553,000. Future rental payments for operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Amount
1997	$ 5,872
1998	4,445
1999	3,560
2000	2,242
2001	1,322
2002+	3,698
Total future rental payments	$ 21,139

12. STATE DEBT

A. General Information - The State has no constitutional limit on its power to issue obligations or incur debt other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-Term Debt - The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued. The ending cash balance in the General Fund includes $101.2 million in tax and revenue anticipation notes (TRANS) that were repaid on July 1, 1996. Although statute requires that TRANS be repaid on or before the last day of the fiscal year in which they are issued, June 30, 1996, fell on a Sunday and the TRANS were repaid on the following business day. Had the State repaid the TRANS of $101.2 million plus accrued interest of $3.1 million by June 30, 1996, the ending cash balance in the General Fund would have been $41.7 million which compares to balances in previous years.

The Board of Investments (BOI) of the State of Montana is authorized to issue Municipal Finance Consolidation Act Bonds which may not aggregate more than $50 million. The purpose of the bonds is to provide funds for the BOI to make loans to eligible local government units. The bonds are not in any way a debt or liability of the State of Montana. The bonds are limited obligations of the BOI payable solely from repayments of principal and interest on loans made by the BOI to participating local government units, investment income under the indenture and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the Trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and have been reclassified as short-term debt. The amounts issued and outstanding at June 30, 1996, are as follows (in thousands):

Series	Amount Issued	Balance June 30, 1996
1991	$ 5,000	$ 4,875
1992	6,500	6,365
1994	7,500	7,355
1995	7,500	7,465
TOTAL		$26,060

C. Long-Term Debt - The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue bonds and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities. Long-term debt (excluding bonds/notes of Enterprise Funds and Internal Service Funds discussed elsewhere in this footnote; Leases - Note 11 and Compensated Absences - Note 1) of the State at June 30, 1996, is as follows (in thousands):

				Principal Payments		
General Obligation Debt	Series	Amount Issued	Interest Range (%)	FY 1997	In Year of Maturity (11)	Balance June 30, 1996
Long-Range Bldg Program	1985A	$ 8,550	7.9-8.0	$ 100	$150 (2001)	$ 650
Water Development Program (1)	1988	500	9.4	20	50 (2009)	405
Water Development Program (1)	1989B	500	8.55	15	50 (2010)	425
Water Development Program (1)	1991A	750	8.0-8.2	35	90 (2007)	640
Wastewater Treatment Works	1991B	2,595	5.5-6.8	75	215 (2014)	2,390
GO Refunding	1992	31,330	4.4-6.2	3,295	390 (2010)	8,305
Energy Conservation Program (2)	1993A	1,500	3.6-4.75	135	180 (2004)	1,245
Long-Range Bldg Program	1993B	3,185	3.0-4.25	355	310 (2004)	2,500
Renewable Resource Development(1)	1993C	750	4.25-5.65	65	95 (2004)	630
Long-Range Bldg Program	1994A	22,540	4.2-6.0	760	1,725 (2014)	21,090
Wastewater Treatment Works	1994B	2,200	4.2-6.1	65	180 (2016)	2,200

General Obligation Debt	Series	Amount Issued	Interest Range (%)	Principal Payments FY 1997	Principal Payments In Year of Maturity (11)	Balance June 30, 1996
Long-Range Bldg Program	1994C	21,955	5.125-7.0	675	1,790 (2015)	21,305
Energy Conservation Program (2)	1994D	1,600	4.9-7.0	135	200 (2005)	1,475
Renewable Resource Development (1)	1994E	750	7.7-8.5	55	105 (2005)	695
Energy Conservation Program (2)	1996A	1,650	3.5-4.4	165	195 (2006)	1,650
Renewable Resource Development (1)	1996B	1,250	5.3-6.1	125	155 (2006)	1,250
Wastewater Treatment Works	1996C	2,765	3.75-5.75	-	120 (2017)	2,765
Total General Obligation Debt		$ 104,370		$ 6,075		$ 69,620
Special Revenue Bonds						
Department of Transportation	1987	$ 37,955	6.1-6.25	$ 9,235	$9,795 (1998)	$ 19,030
Water Conservation (3)	-	100	3.463-5.0	3	3 (2016)	67
Water Development Program (4)	1987C	1,215	6.7-7.6	50	120 (2008)	945
Broadwater Power Project (4)(6)	1990A	3,800	9.5	335	505 (2002)	2,490
Broadwater Power Project (4)(5)	1991A	21,735	6.4-6.875	-	2,135 (2018)	21,735
Water Development Program (4)	1992A	11,955	4.4-6.1	770	1,250 (2006)	9,825
Water Development Program (4)	1992B	9,375	4.25-6.0	305	795 (2013)	8,535
Department of Transportation	1993	72,375	4.0-5.05	2,000	3,705 (2004)	67,375
Renewable Resource Program (4)	1996A	14,985	3.7-5.2	850	110 (2017)	14,985
Total Special Revenue Bonds		$173,495		$13,548		$144,987
Middle Creek Dam Project (7)		$ 2,990	8.125	$ 31	1,581 (2032)	$ 3,206
Treasure State Endowment (8)		4,134	5.85	415	779 (2001)	3,592
Natural Resource Damage Lit. Pgm. (9)		9,062	-	-	-	9,062
Developmental Center Project (10)		13,100	4.7-6.4	290	1,015 (2019)	13,030
Total Notes Payable		$ 29,286		$ 736		$ 28,890
Total Special Revenue Debt						$173,877

(1) All Water Development Program Bonds and the Renewable Resource Development Bonds are secured additionally by a pledge of and payable from certain coal severance taxes. Series 1988, 1989B, 1991A and 1993C bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.

(2) Bonds issued for financing the design, construction and installation of energy conservation projects at various State buildings.

(3) Bonds sold to Farmers Home Administration.

(4) Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes and project revenues.

(5) First payment of $795,000 is due in 2003.

(6) Bonds were sold to the Montana Board of Investments.

(7) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes $274,486 of interest owed.

(8) Board of Investments Treasure State Endowment loan from the Coal Tax Trust Fund to the State of Montana Department of Commerce.

(9) Board of Investments loan to the Department of Justice for the Natural Resource Damage Litigation Program. Interest accrues at .5% over the yield on the most recent issue of United States Government 30 Year Bonds. Loan repayment is secured by a pledge of amounts to be recovered in the ongoing litigation with Atlantic Richfield Company.

(10) Montana Health Facility Authority Loan to the Department of Public Health and Human Services for the Montana Developmental Center Project.

(11) Year of Maturity refers to fiscal year.

Board of Regents Issues Higher Education Units - Component Unit	Series	Amount Issued	Interest Range (%)	Principal Payments FY 1997	Principal Payments In Year of Maturity	Balance June 30, 1996
University of Montana (U of M)	1993A/1995B/1995C	$ 78,657	3.4-6.9	$1,755	$ 4,578 (2018)	$ 75,377
Montana State University (MSU)	1986A/1987A/1993A	46,527	3.45-8.0	1,500	10,465 (2017)	44,107
Montana Tech of the U of M	1995C	8,667	3.8-5.75	310	202 (2018)	8,667
MSU - Billings	1994C	9,360	4.25-5.6	620	425 (2007)	8,170
MSU - Northern	1994C	2,890	4.25-6.0	90	100 (2015)	2,730
Western Montana College of the U of M (WMC)	1993A/1995B/1995C	1,923	3.4-6.9	65	122 (2018)	1,768
Helena College of Technology of The University of Montana (HCT)	1995B/1995C	767	4.1-6.4	30	51 (2018)	737
		$148,791		$4,370		$141,556
Add: Unamortized Premium						23
Less: Unamortized Discount						(2,167)
Total Higher Education Bonded Debt						$139,412
Higher Ed Nonbonded Debt						
U of M - Missoula, Bookstore Note		$ 500	Variable	$ -	$ 500 (2005)	$ 500
U of M - Missoula, INTERCAP Program Note		96	Variable	19	21 (1999)	60
MSU - Bozeman, Thackeray Note		350	5.0	122	122 (1997)	122
MSU - Bozeman, Fiber Note		306	5.9	61	66 (2001)	306
MSU - Billings, SD #2 Note		876	N/A	101	95 (1999)	291
MSU - Northern, INTERCAP Program Note		1,181	Variable	149	69 (2006)	1,094
WMC - UM, INTERCAP Program Note		98	Variable	23	18 (2000)	91
WMC - UM, Mortgages Payable		70	6.5	3	6 (2009)	64
MSU - College of Technology, Great Falls, Note		100	5.38	18	22 (2001)	100
Total Higher Education Nonbonded Debt		$ 3,577		$ 496		$ 2,628
TOTAL HIGHER EDUCATION FUNDS						$142,040

Debt service requirements (principal and interest) for long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds are as follows (in thousands):

Fiscal Year Ending June 30	General Obligation Debt	Special Revenue Bonds	Higher Ed Bonded Debt	Non-Bonded Debt	Total Requirements
1997	$ 9,638	$ 22,568	$ 11,226	$ 533	$ 43,965
1998	6,374	22,691	11,385	407	40,857
1999	6,662	21,179	11,594	406	39,841
2000	6,533	31,186	11,593	281	49,593
2001	6,509	21,283	11,593	222	39,607
2002+	69,048	121,680	174,482	889	366,099
Totals	$ 104,764	$240,587	$231,873	$ 2,738	$ 579,962

A summary of changes in long-term liabilities payable reported in the General Long-Term Obligations Account Group for the fiscal year ending June 30, 1996, is as follows (in thousands):

	Balance July 1, 1995	Additions	Reductions	Balance June 30, 1996
Early Retirement Benefits	$ 510	145	135	$ 520
Arbitrage Rebate Tax	35	26	33	28
Net Pension Obligation	-	2,738	-	2,738
General Obligation Debt	$ 78,000	$ 5,665	$ 14,045	$ 69,620
Special Revenue Debt	184,457	16,610	27,190	173,877
Totals	$ 263,002	$ 25,184	$ 41,403	$ 246,783

D. Early Retirement Benefits Note

The 1993 Montana State Legislature granted an early retirement incentive. The incentive consisted of an additional three years of employer and employee contributions paid by the employer agency to the State of Montana Public Employees' Retirement System. The payments may be made over a period of time not to exceed nine years at an interest rate of eight percent. Debt Service requirements are as follows (in thousands):

	Principal Payments		
	FY 1997	In Year of Maturity	Balance June 30, 1996
Primary Government:			
General Obligation Debt	$ 57	$ 91	$ 520
Component Unit:			
Higher Education Units	10	15	86
TOTAL	$ 67	$ 106	$ 606

E. Early Bond Redemption

On July 24, 1995 and March 26, 1996, the State Compensation Insurance (Old Fund), a Component Unit of the State of Montana, deposited $21,495,949 and $13,211,766, respectively, of accumulated Old Fund Liability Tax (OFLT) collections with an escrow agent to be invested in federal securities to provide for future debt service payments. The escrow is irrevocable, but the Montana Board of Investments has retained the right to call the bonds prior to maturity if the value of the escrow is sufficient to do so. The transaction met the requirements of a legal defeasance and $33,955,000 of Payroll Tax bonds, maturing on June 1, 2020, were removed from Old Fund's financial statements. The defeasances resulted in a reduction of debt service to maturity of $89,046,953 and a net savings in interest cost of $53,996,589. The Old Fund recognized an extraordinary loss on extinguishment of debt of $1,709,000.

F. Refunded Bonds

On August 15, 1995, the Housing Authority, a Component Unit of the State of Montana, issued $88,000,000 Single Family Program Bonds, 1995 Series B. A portion of these proceeds were used to optionally redeem, on October 16, 1995, $40,660,000 of the Single Family Program Bonds 1979 Series A, at a premium of 101%. The Housing Authority deferred $1,045,769 of costs related to the refunding of the 1979 Series A Bonds. These deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds. The 1995 Series B refunding resulted in an economic gain of $2,553,455 and a difference in cash flows of ($55,299,838).

On December 14, 1995, the University of Montana, a Component Unit of the State of Montana, issued $8,666,780 of Facilities Improvement Revenue and Refunding Bonds, 1995 Series C, for MT Tech, with interest rates ranging from 3.8 to 5.75%. MT Tech deposited $5,583,647 of proceeds with an escrow agent to be invested in federal securities to provide for future debt service payments. The transaction met the requirements of a legal defeasance and $5,300,000 of 1986 Series A refunding revenue bonds, maturing on November 15, 2009, were removed from MT Tech's financial statements. The defeasance resulted in a reduction of debt service to maturity of $382,842 and an economic gain of $525,503.

On February 1, 1996, the Montana Department of Natural Resources and Conservation (DNRC) issued $14,985,000 of 1996 Refunding Series A, Coal Severance Tax, Renewable Resource Program Bonds. DNRC deposited $13,368,149 of proceeds plus $1,030,631 of certain other available funds with an escrow agent to be invested in federal securities to provide for future debt service payments. The transaction met the requirements of an in-substance defeasance and $1,375,000 of 1988 Series A, $4,915,000 of 1989 Series A, and $7,215,000 of 1990 Refunding Series B Coal Severance Tax, Renewable Resource Program Bonds, maturing on December 1, 2008, December 1, 2009, and December 1, 2006, and callable December 1, 1997, December 1, 1998, and December 1, 1998, respectively, were removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of $1,136,785 and an economic gain of $809,961.

In prior years, the State of Montana and the Board of Regents of Higher Education have issued general obligation and revenue refunding bonds, the proceeds of which were used to defease certain bond issues already outstanding. The proceeds of the refunding issues were placed in escrow accounts and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the refunded issues. Accordingly, the debt is considered defeased for financial reporting purposes and the liability for the defeased bonds is not included in the financial statements. At June 30, 1996, the defeased bonds outstanding are as follows (in thousands):

General Obligation	$ 14,160
Special Revenue	129,915
Higher Education Revenue	25,395
Total	$169,470

G. Enterprise Funds

(1) Economic Development & Municipal Finance Consolidation Act Bonds (EDB) - This program is directed by the nine-member Board of Investments which is attached to the Department of Commerce for administrative purposes. This program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions. Outstanding obligations are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments FY 1997	Principal Payments In Year of Maturity	Balance June 30, 1996
Industrial Development Revenue Bonds (Pooled Loan) (a)	1984A	$ 70	7.0-10.75	$ 5	$ 15 (2000)	$ 30
Industrial Development Revenue Bonds (Pooled Loan) (a)	1985A,G,H	790	6.75-10.1	35	95 (2007)	600
Municipal Finance Consolidation Act Bonds (Irrigation Program) (b)	1988	4,976	6.6-7.75	495	130 (2014)	4,497
Economic Development Bonds (Conservation Reserve Enhancement Program) (c)	1991A-B	7,380	10.0-11.2	1,225	285 (2000)	2,825
Municipal Finance Consolidation Act Bonds (d)	1991	6,234	4.75-6.5	467	294 (2005)	3,326
TOTAL BONDS PAYABLE		$19,450		$ 2,227		$11,278
Conservation Reserve Enhancement Program (CRP Notes) (c)		3,255	7.5-9.92	1,107	274 (2001)	3,255
TOTAL BONDS/NOTES PAYABLE		$22,705		$ 3,334		$14,533

(a) These bonds, which may not aggregate more than $75 million, are limited obligations of the Board of Investments payable solely from and secured by certain revenues and assets pledged pursuant to an Indenture of Trust. The bonds do not constitute a debt, liability or legal obligation of the State of Montana. However, if the balance in the "Capital Reserve Account A" falls below the indenture requirement, the Governor is required to request the Legislature to appropriate funds to restore the balance. The Legislature may, but is not legally obligated to, appropriate funds to correct any such deficiency. Principal payments (accrued interest to be added) are due each March 15. Series 1985J ($665,000) and Series 1985B ($775,000) were recalled on March 15 and December 15, 1988, respectively, without a gain or loss on extinguishment. Series 1985L ($325,000) was recalled in March 1992, without a gain or loss on extinguishment. Series 1984B ($510,000), Series 1984C ($255,000), Series 1984D ($970,000) and Series 1984E ($420,000) were retired March 15, 1995, through the exercise of optional redemption provisions resulting from loan prepayments. Loss from early extinguishment totaled $40,877. On March 15, 1996, Series 1984F ($225,000), Series 1984G ($1,200,000), Series 1985C ($190,000), Series 1985D ($285,000), Series 1985E ($790,000), Series 1985F ($345,000), Series 1985I ($90,000) and Series 1985K ($670,000) were retired through the exercise of optional redemption provisions resulting from loan prepayments. Loss from early extinguishment totaled $1,608 for Series 1984 and $9,313 for Series 1985.

(b) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment levied against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The indenture does not permit the issuance of additional bonds.

(c) These bonds and notes were issued for the purpose of providing funds for the Board of Investments, State of Montana, to make loans to participating farmers and ranchers under its Conservation Reserve Enhancement Program. The Series 1991 Bonds are not in any way a debt or liability of the State of Montana, and neither the full faith and credit, nor the taxing power of the State of Montana is pledged to the payment of the principal of or interest on the Series 1991 Bonds. However, the 1991 Bonds are limited obligations of the Board of Investments. The Bond Anticipation Notes which matured on November 15, 1992, were reissued to correspond with maturities per the underlying loans. On November 15, 1994, eleven BAN's were reissued to comply with statutory requirements limiting the maturity of notes to five years from issuance date.

(d) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of participating Montana School Districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments, and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the state is pledged to the payment of principal of or interest on the bonds.

Debt service requirements (principal & interest) for EDB are as follows (in thousands):

1997	1998	1999	2000	2001	2002+	Totals
$ 4,416	$3,640	$2,638	$2,036	$1,567	$5,434	$19,731

(2) Board of Housing (BOH) (Housing Authority) - Component Unit - Revenue Bonds - The Montana Board of Housing is authorized to have an aggregate of $975 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Govemor shall include in the executive budget submitted to the legislature the sum required to fund possible future deficiencies in required reserves; however, the legislature is not legally required to appropriate funding for such deficiencies. None of the outstanding bonds were issued under these provisions. BOH Revenue Bonds (net) outstanding at June 30, 1996, are as follows (in thousands):

				Principal Payments		
Program	Series	Amount Issued	Interest Rate (%)	FY 1997	In Year of Maturity	Balance June 30, 1996
Single Family I	1977A	$ 21,470	4.5-8.0	$ 850	$ 1,850 (2009)	$ 8,880
	1977B	35,060	4.15-8.0	1,675	3,160 (2009)	15,020
	1978A	13,600	6.0-6.5	445	1,115 (2010)	6,080
	1987A	20,000	5.3-8.625	490	1,240 (2018)	7,330
	1987B1-B2	20,000	6.25-9.0	175	610 (2019)	5,900
	1988A1-A2	19,999	5.4-8.5	305	2,115 (2019)	9,108
Subtotal		$130,129		$ 3,940		$ 52,318
Single Family II	1983C	$114,998	5.75-10.7	$ -	$ 3,035 (2010)	$ 19,722
	1984A	75,002	7.0-10.375	-	5,800 (2010)	6,077
	1985A	40,000	5.5-9.75	-	5,170 (2016)	11,924
	1985B	74,997	5.7-9.75	-	485 (2011)	4,345
	1992RA	22,520	5.65-6.5	-	10 (2033)	22,520
	1994A	25,725	3.1-6.1	1,445	585 (2025)	21,475
	1994B	40,815	3.8-6.9	2,375	595 (2025)	33,235
	1994C	20,000	4.5-6.8	380	575 (2027)	19,190
	1995A	33,580	4.75-6.55	-	1,080 (2027)	32,820
	1995B	88,000	4.2-6.4	-	1,480 (2036)	88,000
Subtotal		$535,637		$ 4,200		$259,308
Single Family III	1988B1-B2	$ 25,000	6.2-8.9	$ 240	$ 355 (2021)	$ 10,755
Single Family IV	1989A1-A2	25,000	7.0-9.2	180	490 (2021)	11,090
Single Family V	1990A1-A2	25,000	6.2-8.525	280	730 (2022)	12,675
Single Family VI	1990B1-B2	25,000	6.3-8.5	275	805 (2022)	14,170
Single Family VII	1990C1-C2	25,000	6.55-8.95	265	835 (2022)	13,685
Single Family VIII	1991A1-A2	25,000	5.2-8.275	335	920 (2023)	16,650
Single Family IX	1991B1-B2	25,000	5.5-8.4	305	890 (2023)	16,720
Single Family X	1992A1-A2	25,000	4.45-7.85	310	830 (2024)	18,350
Multifamily	1978A	4,865	6.125	65	645 (2020)	4,245
	1992	9,725	2.95-6.55	165	50 (2024)	9,305
Subtotal		$ 14,590		$ 230		$ 13,550
TOTAL		$880,356		$10,560		$439,271
Add: Deferred amount on refunding						673
Add: Unamortized bond premiums						52
Less: Unamortized bond discounts						(17)
TOTAL BOH BONDS PAYABLE (net)						$439,979

Debt service requirements (principal & interest) for all BOH programs are as follows (in thousands):

1997	1998	1999	2000	2001	2002+	Total
$37,088	$37,330	$37,804	$38,126	$36,698	$796,816	$983,862

(3) Payroll Tax Bonds (Workers' Compensation Program) - State Compensation Insurance - Old - Component Unit - The Board of Investments of the State of Montana issued $140,640,000 of bonds for the purpose of funding the State's liability and cost in administering and paying claims for injuries resulting from accidents, prior to July 1, 1990, that are subject to the Montana Workers' Compensation Act and the Occupational Disease Act of Montana. The bonds are limited obligations of the State of Montana payable solely from and secured by certain payroll tax revenues collected by the Department of Revenue of the State of Montana. Included in the issued bonds is $32,500,000 of Series 1993 variable rate demand bonds issued October 27, 1993, and maturing June 1, 2020. The bonds are subject to purchase on demand of the holder at a price equal to principal plus accrued interest on thirty days notice and delivery to the remarketing agent. The Montana Board of Investments (BOI) has entered into a Standby Liquidity Agreement to purchase eny tendered bonds which are unable to be remarketed by the remarketing agent. The BOI is entitled to the same rights as any other bondholder, including the right to receive payments of principal and interest. As of June 30, 1996, $32,500,000 of the demand bonds are outstanding. Old Fund Payroll Tax Bonds (net) outstanding as of June 30, 1996, are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments FY 1997	Principal Payments In Year of Maturity	Balance June 30, 1996
Payroll Tax Bonds	1991	$108,140	4.9-6.875	$2,405	$4,495 (2017)	$97,885
Less: Unamortized discount						(1,328)
TOTAL BONDS PAYABLE (net)						$ 96,557

Debt service requirements (principal & interest) are as follows (in thousands):

1997	1998	1999	2000	2001	2002+	Totals
$ 8,983	$ 8,984	$ 8,983	$ 8,986	$ 8,984	$139,593	$184,513

H. No-Commitment Debt - Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) Montana Board of Investments (BOI) - The BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. The industrial revenue bonds issued by BOI do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1996,outstanding industrial revenue bonds are as follows (in thousands):

Project	Date of Issue	Amount Issued	Amount Outstanding
Montana Cenex	August 1985	$ 3,925	$ 3,925
Bozeman Holiday Inn	October 1987	4,485	3,685
Colstrip	October 1989	60,800	60,800
Yellowstone Energy (BGI)	July 1993	118,345	118,345
Total		$187,555	$186,755

(2) Beginning Farm Loan Program - The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 1996, is as follows:

Jorgensen Project - issued $81,600; outstanding $37,432.

(3) Montana Health Facility Authority (MHFA) - Component Unit - The MHFA is authorized to issue bonds and notes to finance projects for qualifying health institutions. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1996, the MHFA had issued bonds and notes as follows (in thousands):

Project	Date of Issue	Amount Issued	Amount Outstanding
West Mont Home Health Services	June 1985	$ 440	$ 196
MHFA 1985 Pooled Loan Projects	December 1985	66,900	37,200
Community Provider Pooled Loans	October 1988	1,461	980
St. Peters Community Hospital	March 1989	9,365	7,600
Kalispell Regional Hospital	June 1990	14,475	12,470
Community Provider Pooled Loan	July 1990	5,858	4,925
Deaconess Medical Center (Series A)	February 1991	18,000	18,000
Deaconess Medical Center (Series B)	February 1991	18,000	18,000
Sisters of Providence	May 1991	56,535	48,255
St. Peters Community Hospital	August 1991	7,000	5,970
Deaconess Medical Center	September 1991	32,650	29,450
Deaconess Medical Center	September 1991	7,000	4,035
Community Provider Pooled Loans	September 1991	3,944	3,409
Hospital Pooled Loans	August 1992	4,645	3,585
Richland Opportunities	January 1993	200	182
Bozeman Deaconess Foundation	June 1993	14,900	12,700
Holy Rosary Hospital	September 1993	18,275	17,850
Sisters of Charity	January 1994	50,915	47,410
Deaconess-Billings Clinic	January 1994	58,870	58,870
Community Memorial Hospital	October 1994	570	465
St. John's Retirement Home	October 1994	2,000	2,000
North Valley Hospital (Series C)	October 1994	695	570
North Valley Hospital (Series D)	October 1994	1,310	1,220
Northern MT	October 1995	5,645	5,645
Northern MT	November 1995	6,090	6,090
Livingston Hospital	May 1996	540	443
Total		$406,283	$347,520

13. INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets, service debt, etc. Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. To the extent that certain transactions between funds are not paid or received as of June 30, 1996, interfund receivables/payables (Due From/To Other Funds) are recorded. The schedule below presents all interfund balances outstanding at June 30, 1996, (in thousands) and interfund activity for the fiscal year then ended:

Within Primary Government and Component Units	Interfund Loans/Advances		Due From Other Funds	Due To Other Funds	Operating Transfers		Residual Equity Transfers	
	Receivable	Payable			In	Out	In	Out
General	$ 21,508	$ -	$ 49,787	$ 13,847	$159,562	$ 7,712	$ 7,424	$ -
Special Revenue								
State	33,793	3,920	7,141	21,508	21,291	32,398	-	10,331
Federal	140	45,277	4,740	11,283	98	3,950	-	327
Debt Service								
Coal Tax Bonds	-	-	-	8	14,095	38	1,244	-
Long-Range Building Program	-	-	51	1,504	9,153	53,081	-	-
Water Development	-	-	1	314	174	653	1,120	-
Highway Revenue Bonds	-	-	-	-	15,258	-	-	-
Transportation Bldg. Complex	-	-	-	-	-	-	-	28
Renewable Resource	-	-	-	-	-	-	-	40
Energy Bonds	-	-	34	225	9	201	2	-
Capital Projects								
Long-Range Building Program	-	5,100	274	5,264	191	669	-	5,200
Fed/Priv Construction Grants	-	-	-	74	-	-	-	-
Capital Land Grant	-	-	28	-	604	600	-	-
Enterprise								
Economic Dev. Bonds	-	-	-	11	-	-	-	-
Liquor Stores	-	-	86	7,166	-	18,167	-	-
Hail Insurance	-	-	-	14	-	28	-	-
State Lottery	-	-	-	1,779	-	7,803	-	-
Prison Ranch	-	-	38	67	-	-	-	-
Prison Industries	-	-	101	57	-	-	-	-
Uninsured Employers	-	-	24	29	-	-	-	-
Subsequent Injury	-	-	3	1	-	-	-	-
Montana Career Info. Sys.	-	-	5	5	-	-	-	-
FWP Snowgroomer Rental	-	-	-	-	-	-	-	2
Sec. of State Business Services	-	-	5	106	-	-	-	-
Historical Soc. Publications	-	-	1	20	53	-	-	-
Surplus Property	-	-	1	22	-	-	-	-
W. Yellowstone Airport	-	-	17	3	17	-	-	-
Local Govt. Audits	-	35	-	14	-	-	-	-
Internal Service								
Highway Equipment	-	-	286	259	-	-	-	-
Employees' Grp. Ben.	-	-	3	29	-	-	-	-
ISD	-	-	1,376	461	97	-	-	-
MSU Group Insurance	-	-	18	6	-	-	-	-
Admin. Insurance	-	-	-	58	88	-	-	-
FWP Equipment	-	-	365	6	208	-	-	-
Motor Pool	-	-	151	127	-	-	1,293*	-
Admin. Prop. & Supply	-	-	184	26	-	-	-	-
Publications & Graphics	-	-	224	85	-	-	-	-
Buildings & Grounds	-	-	131	46	53	-	-	-
Labor Central Services	-	-	40	42	-	-	-	-
Commerce Central Services	-	-	113	106	-	-	-	-
DEQ Indirect Cost Pool	-	-	296	204	-	-	-	277
PHHS Indirect Cost Pool	-	-	401	1	530	-	277*	-
FWP Warehouse Inventory	-	-	9	-	-	-	-	-
Mail & Messenger	-	100	123	44	-	-	-	-
Payroll Processing	-	-	-	46	-	-	107*	-
Warrant Processing	-	-	53	53	-	-	-	-
Investment Division	-	-	35	85	-	-	-	-
Aircraft Operation	-	-	40	20	338	-	-	-
Justice Legal	-	-	66	121	-	-	-	-
OPI Central Services	-	-	60	43	350	-	-	-
Personnel Training	-	-	11	10	-	-	-	-
Records Management	-	-	37	9	-	-	-	-
FWP Office Supply	-	-	-	1	-	-	-	-
Debt Collections	-	-	36	15	-	-	-	-
Admin. Legal	-	-	-	6	-	-	-	-

Within Primary Government and Component Units	Interfund Loans/Advances		Due From Other Funds	Due To Other Funds	Operating Transfers		Residual Equity Transfers	
	Receivable	Payable			In	Out	In	Out
Local Govt Administration	-	-	8	7	-	-	-	-
Natural Gas Procurement	-	-	-	1	-	-	-	-
Admin. DP Unit	-	-	1	3	-	-	-	-
Expendable Trusts								
Unemployment Insurance	-	20	11	-	-	-	8	-
Intergovernmental Trust	-	-	299	6,075	-	-	4,706	-
Rural Development	-	-	-	3	-	-	-	-
Escheated Property	-	-	-	2	63	1,172	-	-
Historical Society General	-	-	-	1	-	7	-	-
Nonexpendable Trusts								
Coal Tax Trust	-	37	19	6,984	-	43,962	24	-
Land Grants	-	-	1,013	14,337	1,109	43,891	-	-
Resource Indemnity	-	-	289	1,359	-	7,960	-	-
Parks Trust	-	-	-	186	-	1,033	-	-
Cultural Trust	-	-	-	266	-	588	-	-
Real Property	-	-	79	85	-	453	-	-
Noxious Weed Management	-	-	1	68	-	423	-	-
Thomas Teakle Trust	-	-	-	-	-	4	-	-
Pension Trusts								
PERS	-	-	210	78	-	-	-	-
Municipal Police	-	-	2,497	31	-	-	-	-
Firefighters Unified	-	-	4,142	26	-	-	-	-
Sheriffs	-	-	-	22	-	-	-	-
Highway Patrol	-	-	52	14	-	-	-	-
Judges	-	-	68	3	-	-	-	-
Game Wardens	-	-	-	5	-	-	-	-
Volunteer Firefighters	-	-	-	22	-	-	-	-
Agency								
Investment Pool	-	1,012	-	-	-	-	-	-
Performance Deposits	60	-	4	582	-	-	-	-
Central Payroll	-	-	22,541	92	-	-	-	-
Custodial Accounts	-	-	15	309	-	-	-	-
Unissued Warrants	-	-	81	1,895	-	-	-	-
Child Support Collections	-	-	98	1,079	-	-	-	-
Intergovernmental	-	-	20	20	-	-	-	-
Unclaimed Property	-	-	3	-	-	-	-	-
Uncleared Collections	-	-	14	727	-	-	-	-
Debt Collection	-	-	1	242	-	-	-	-
COMPONENT UNITS								
Enterprise Funds								
Housing Authority	-	-	-	2	-	-		
State Comp. Insurance - New	-	-	1,770	8	-	-	-	-
State Comp. Insurance - Old	-	-	37	1,745	-	-	-	-
Pension Trusts								
Teachers Retirement System	-	-	522	10	-	-	-	-
Higher Education								
Current Funds								
General Operating	700	-	5,408	4,036	982	843	-	-
Designated	2,065	25	4,286	2,255	3,130	4,549	2	-
Auxiliary	14	16	425	1,324	704	9,335	-	-
Restricted	-	2,514	207	4,587	235	66	-	2
Fiduciary								
Student Loans	-	-	14	274	2	15	-	-
Endowments	-	-	-	38	14	527	-	-
Agency	-	-	4,052	1,492	-	-	-	-
Plant								
Unexpended	16	265	292	234	7,418	8,303	3	-
Renewal & Replacement	172	432	664	362	7,925	1,304	-	3
Retirement of Indebtedness	285	-	1,045	462	12,019	6,035	-	-
Totals	$ 58,753	$ 58,753	$116,583	$116,583	$255,770	$255,770	$ 16,210	$ 16,210

*These Residual Equity Transfers are reflected in Contributed Capital on the Balance Sheet.

Between Primary Government and Component Units	Due From Comp. Units	Due To Primary Govt	Due To Comp. Units	Due From Primary Govt	Transfer To Comp. Unit	Transfer From Primary Govt
General	$ 404	$ -	$ 425	$ -	$95,880	-
Special Revenue						
State	546	-	533	-	15,092	-
Federal	26	-	528	-	-	-
Debt Service						
Long-Range Building Program	5	-	25	-	-	-
Enterprise						
Economic Dev. Bonds	6	-	-	-	-	-
Prison Industries	122	-	-	-	-	-
Surplus Property	-	-	12	-	-	-
Internal Service						
Highway Equipment	4	-	-	-	-	-
ISD	303	-	18	-	-	-
MUS Group Insurance	441	-	-	-	-	-
Motor Pool	1	-	-	-	-	-
Admin. Supply	35	-	1	-	-	-
Publications & Graphics	44	-	-	-	-	-
Building & Grounds	1	-	-	-	-	-
Commerce Central Services	6	-	-	-	-	-
Warrant Processing	18	-	-	-	-	-
Investment Division	10	-	-	-	-	-
Records Management	2	-	-	-	-	-
Nonexpendable Trusts						
Land Grants	-	-	660	-	1,815	-
Pension Trusts						
PERS	297	-	-	-	-	-
Agency						
Land Grant Interest	-	-	1	-	-	-
Performance Deposits	-	-	9	-	-	-
Employees Defer. Comp.	78	-	-	-	-	-
Central Payroll	985	-	-	-	-	-
Child Support Collections	6	-	-	-	-	-
Uncleared Collections	6	-	-	-	-	-
Debt Collections	-	-	18	-	-	-
COMPONENT UNITS						
Enterprise Funds						
Housing Authority	-	36	-	1	-	-
Health Facilities Authority	-	11	-	-	-	-
State Comp. Ins. - New	-	913	-	36	-	-
State Comp. Ins. - Old	-	2	-	287	-	-
Pension Trusts						
Teachers Retirement System	-	27	-	14	-	-
Higher Education						
Current Funds						
General Operating	-	1,144	-	15	-	110,959
Designated	-	257	-	131	-	-
Auxiliary	-	22	-	91	-	215
Restricted	-	45	-	1,049	-	-
Fiduciary						
Student Loans	-	-	-	5	-	-
Agency	-	745	-	20	-	-
Plant						
Unexpended	-	139	-	262	-	746
Renewal and Replacement	-	5	-	1	-	13
Retirement of Debt	-	-	-	318	-	854
Totals	$ 3,346	$ 3,346	$ 2,230	$ 2,230	$112,787	$112,787

14. FUND DEFICITS

The following funds have a deficit fund balance/retained earnings found on the operating statements for June 30, 1996, (in thousands):

Primary Government	Deficit
Enterprise Fund	
West Yellowstone Airport	$ (703)
Department of Agriculture	(176)
Internal Service Fund	
Administration Insurance	(8,003)
Payroll Processing	(46)
Justice Legal	(86)
Administration - Legal	(4)
Local Government Admin	(31)
Total Fund Deficits - Primary Government	$ (9,049)
Component Units	
Proprietary Fund Type	
State Comp. Ins. (Old Fund)	$ (369,307)
Higher Education Funds	
General Operating Subfund	(18,487)
Total Fund Deficits - Component Units	$ (387,794)

The deficit retained earnings in the Administration Insurance Fund and the State Compensation Insurance-Old Fund are due to recording the expense for estimated claims including claims incurred but not reported. Refer to Note 9 for further discussion of these funds. The deficit fund balance in the General Operating Subfund is due to the expense associated with the recording of compensated absences.

15. RESERVED FUND BALANCES FOR TRUSTS

The Special Revenue trust reserved fund balance is attributed to the Fish, Wildlife and Parks Mitigation Trust Account within the State Special Revenue Fund.

The Coal Tax Trust reserved fund balance in the Nonexpendable Trust Fund consists of the following (in thousands): Permanent Coal Tax Trust $527,966, Treasure State Endowment Fund $42,263 and the School Bond Contingency Fund $2,178. All other Nonexpendable Trust Fund balances, $477,299, are Reserved for Trust Principal.

16. SEGMENT INFORMATION

Selected financial information concerning all enterprise operations for the fiscal year ended June 30, 1996, is as follows (in thousands):

	Economic Development Bonds	Liquor Stores	Hail Insurance	State Lottery	Other Enterprise*	Total Enterprise
Operating Revenues:						
Charges for Services	$ 62	$ 42,239	$ -	$ 31,763	$ 9,270	$ 83,334
Investment Earnings	846	-	270	243	356	1,715
Financing Income	2,415	-	-	-	-	2,415
Contrib./Premiums	-	-	2,181	-	16	2,197
Grants/Contracts/Donations	-	-	-	-	7	7
Taxes	-	11,876	-	-	-	11,876
Other Revenues	-	48	1	1	3,768	3,818
Operating Expenses:						
Depreciation	4	77	1	90	522	694
Amortization	-	-	-	-	9	9
Other	3,055	36,881	3,219	24,126	10,718	77,999
Operating Income (Loss)	264	17,205	(768)	7,791	2,168	26,660
Nonoperating Revenues (Expenses)	-	(49)	-	(35)	(395)	(479)
Oper. Trans. In (Out)	-	(18,167)	(28)	(7,803)	70	(25,928)
Net Income (Loss)	$ 264	$ (1,011)	$ (796)	$ (47)	$ 1,843	$ 253
Current Assets	$ 5,963	$ 18,636	$ 7,192	$ 3,507	$ 13,073	$ 48,371
Current Liabilities	(986)	(17,612)	(1,733)	(2,224)	(743)	(23,298)
Net Working Capital	$ 4,977	$ 1,024	$ 5,459	$ 1,283	$ 12,330	$ 25,073

	Economic Development Bonds	Liquor Stores	Hail Insurance	State Lottery	Other Enterprise*	Total Enterprise
Total Assets	$ 44,009	$ 19,743	$ 7,201	$ 5,492	$ 21,690	$ 98,135
Total Liabilities	41,852	17,677	2,367	5,253	2,184	69,333
Fund Equity	$ 2,157	$ 2,066	$ 4,834	$ 239	$ 19,506	$ 28,802
Long-Term Obligations	$ 40,866	$ 65	$ 634	$ 3,029	$ 1,441	$ 46,035
Cur. Yr. Capital Cont.	$ -	$ -	$ -	$ -	$ 1,102	$ 1,102
Acquisition of Fixed Assets	$ 8	$ 91	$ 1	$ 91	$ 503	$ 694
Disposal of Fixed Assets	$ 3	$ 579	$ -	$ 440	$ 1,040	$ 2,062

1. The Economic Development Bond Program, administered by the Board of Investments, assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

2. The Liquor Division of the Department of Revenue administers the State liquor operations (Liquor Stores). This fund accounts for liquor licensing activities and the sale and distribution of alcoholic beverages.

3. The Hail Insurance Fund provides benefit payments to producers for crop acreage insured and accounts for premium assessments paid (See Note 9).

4. The State Lottery accounts for the operations of Montana's lottery which began in June 1987. Included in Other Assets is $1,641,000 which is not a current asset.

* Other Enterprise is composed of the following funds (listed by administering agency):

Department of Agriculture
Department of Agriculture

Department of Commerce
Local Government Audits

Department of Transportation
West Yellowstone Airport

Fish, Wildlife and Parks
FWP Snowgroomer Rental

Montana Historical Society
Historical Society Publications

Department of Labor and Industry
Montana Career Infor. System
Subsequent Injury
Uninsured Employers

Secretary of State
Business Services

Department of Corrections
Prison Ranch\Industries
Women's Prison Industries
Swan River Vocational Training

Department of Administration
Surplus Property

17. CONTRIBUTED CAPITAL

During fiscal year 1996, contributed capital changed by the following amounts (in thousands):

	PRIMARY GOVERNMENT		COMPONENT UNITS
	Enterprise Fund	Internal Service Fund	Proprietary Fund Type
Beginning Balance - July 1, 1995	$ 3,490	$ 5,343	$ 11,584
Additions:			
Contrib. Capital Transfers-in	1,617	4,054	15
Deletions:			
Contrib. Capital Transfers-out	(515)	(2,819)	-
Ending Balance - June 30, 1996	$ 4,592	$ 6,578	$ 11,599

18. NONEXPENDABLE TRUST FUNDS' INVESTMENT INCOME

Investments are recorded in Nonexpendable Trust Funds using the full accrual basis of accounting. However, certain investment earnings attributable to these trusts are transferred elsewhere, as summarized below:

Nonexpendable Trust Fund	Reporting of Investment Earnings
Coal Tax Trust	Permanent Trust Accounting Entities - Investment Earnings are distributed to the General Fund, Treasure State Endowment Accounting Entity - A specified amount may be transferred monthly to the State Special Revenue Fund to cover administrative costs, grants, and loans to local governments for infrastructure projects. In 1996, transfers of $1,234,985 were made.

Land Grants	Ninety-four percent of investment earnings are transferred to the General Fund for the Office of Public Instruction to distribute to public schools; five percent is distributed to Higher Education Units (Current and Plant Funds); and one percent to the Department of Corrections (General Fund and State Special Revenue Fund).
Resource Indemnity	Resource Indemnity Tax investment earnings are distributed to the State Special Revenue Fund as follows: At the beginning of each biennium, $175,000 to the Environmental Contingency Account; $50,000 to the Oil and Gas Damage Mitigation Account; $2,000,000 to the Renewable Resource Loan and Grant Account; $3,000,000 to the Reclamation and Development Grant Account; $500,000 to the Water Storage Account; and every fiscal year $240,000 to the Renewable Resource Loan and Grant Account; and the remaining investment earnings are distributed thirty-six percent to the Renewable Resource Loan and Grant Account; eighteen percent to the Hazardous Waste/Comprehensive Environmental Response, Compensation, and Liability Act Account; forty percent to the Reclamation and Development Grant Account; and six percent to the Environmental Quality Protection Account. The beginning of a biennium is the even numbered fiscal year; therefore, the fixed amounts noted above were distributed.
Parks Trust	Investment earnings are distributed to the State Special Revenue Fund for the maintenance of parks by the Department of Fish, Wildlife and Parks.
Cultural Trust	Investment earnings are distributed to the State Special Revenue Fund for cultural and aesthetic projects administered by the Montana Arts Council.
Real Property	Investment earnings are transferred to the State Special Revenue Fund for use by the Department of Fish, Wildlife and Parks to operate, maintain and develop its real property.
Noxious Weed Management	Investment earnings are transferred to the State Special Revenue Fund for noxious weed management projects.
Moore Sipple Connector	Investment earnings are distributed quarterly to the Central Montana Rail Company for use in its operation.
Thomas Teakle	Investment earnings are transferred to the State Special Revenue Fund for the Montana Historical Society's library acquisitions.

19. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 63.4% of the Regents' outstanding loan volume ($285,330,000) is held by MHESAC. Lewis & Clark County owns the building which houses the staff of the Board of Regents and the Office of the Commissioner of Higher Education (OCHE). Upon satisfaction of the financing obligations, MHESAC has the option to purchase the building. OCHE pays MHESAC for its share of various costs such as personnel costs for employees of MHESAC who perform services that are of direct benefit to the State; equipment leases; computer maintenance costs; utilities and other shared operating expenses. The total amount of these expenses for fiscal year 1996 amounted to $295,887. MHESAC employees are allowed to participate in the University System group insurance plan and MHESAC also reimburses OCHE for services such as telephones, postage and computer supplies. During fiscal year 1996 MHESAC paid OCHE a total of $446,178.

There is a foundation affiliated with each university and college unit which solicits contributions and manages those funds for the benefit of that unit. Each foundation is a separate legal entity; each unit exercises significant influence over its affiliated foundation. The units generally provide the foundations with office space, some staff and related office expenses and an annually contracted fee. The units paid their foundations approximately $636,727 in fiscal year 1996. In return the universities received from their foundations approximately $11,301,587 during fiscal year 1996 for scholarships and academic/institutional support. In addition to support from their affiliated foundation, the University of Montana-Missoula and Montana State University-Bozeman received a total of $669,558 from their related athletic associations/booster organizations.

20. CONTINGENCIES

A. **Litigation** - The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

The Crow Tribe filed suit in 1978 in federal district court seeking a declaration that Montana's coal severance and gross proceeds taxes are invalid as applied to the production of coal on the Crow Reservation and to the production of coal owned by the Tribe located in an off-reservation area, known as the "Crow ceded area" or "ceded strip", which lies roughly between the northern boundary of the reservation and the Yellowstone River. The amount of coal reserves falling within these categories has not been precisely determined. The taxes were alleged to be invalid under a variety of theories, of which the most prominent were that the state taxes conflict with federal policy by preventing the marketing of Crow coal and infringe on tribal sovereignty by depriving the Tribe of revenue needed to provide governmental services to the Crow people. In addition to a declaration that the taxes were invalid, the Tribe sought restitution for an amount equal to the severance and gross proceeds taxes paid by Westmoreland Resources, Inc. (Westmoreland), the only company currently mining coal claimed by the Tribe, together with the interest which accrued to the Coal Severance Tax Trust Fund on the amount of taxes paid.

In January 1983, the court ordered Westmoreland's future severance tax payments placed in escrow pending the outcome of the litigation. The State has received no severance tax payments from Westmoreland with respect to the coal mined on the ceded strip since the entry of this order. Prior to 1983, Westmoreland's annual severance tax payments varied from a low of $5.407 million in 1976 to a high of $7.078 million in 1979.

In June 1987, the Ninth Circuit Court of Appeals ruled that Montana is preempted from applying its severance and gross proceeds taxes on coal within the ceded strip held in trust for the Crow Tribe and on coal mined on the reservation. In August 1987, the State docketed an appeal of the decision to the United States Supreme Court, and in January 1988, that Court summarily affirmed the Court of Appeals' judgment.

As a result of the Supreme Court's affirmance, two principal issues remained in the case, one of which has been resolved. The first issue involved the appropriate disposition of the escrowed moneys, to which the State disclaimed any interest after the Supreme Court's decision. The district court concluded in September 1988 that these moneys should be paid to the United States in trust for the Tribe. The escrowed funds totaling $30.1 million were distributed in May 1989 to the United States.

The second issue involved tax monies paid by Westmoreland to the State but not escrowed. Their amount, exclusive of interest, is approximately $46.8 million in severance taxes and $11.4 million in gross proceeds taxes. The Tribe and the United States, which had intervened on the Tribe's behalf in 1983, claimed those taxes under a restitution theory. They additionally sought prejudgement interest on the tax amounts which, as of March 31, 1994, was estimated at $214.1 million for the severance tax and $40.7 million on the gross proceeds tax. Trial on their claim was held in April and May 1994, and in November 1994, the district court ruled in the State's favor. In August 1996, however, a three-judge panel of the Ninth Circuit Court of Appeals reversed the district court's ruling and ordered restitution of the coal severance taxes. It also remanded the matter for determination of the claim to prejudgment interest. The State petitioned for rehearing with a suggestion for rehearing en banc and, in October 1996 the Court of Appeals' panel modified its August opinion to refer to one issue raised in the State's petition for rehearing, but the petition remains pending. If unsuccessful, the State will seek review by the United States Supreme Court. The State believes there are substantial grounds for challenging the Court of Appeals' panel decision, but an unfavorable outcome is reasonably possible.

The Tribe and the United States additionally sought leave in April 1993 to amend their complaints for the purpose of alleging damages in connection with loss of possible production under a coal lease with Shell Oil Company. They estimated those damages alternatively at $327.1 million and $250.4 million as of March 31, 1994. The district court denied the requested amendment in July 1993 and again in February 1994. The court, however, addressed that claim in its November 1994 decision and rejected it. The Tribe and the United States raised that aspect of the court's decision in the appeal before the Ninth Circuit discussed in the previous paragraph. In its August 1996 opinion, the Court of Appeals affirmed the District Court's denial of this claim. The Tribe petitioned the Court of Appeals' panel for rehearing on this issue, but its petition was denied in November 1996. It is unknown whether the Tribe or the United States will seek review of this aspect of the Court of Appeals' decision before the United States Supreme Court. The possibility of an unfavorable outcome concerning the Shell transaction-related claim appears remote.

B. Federal Contingencies:

Federal Financial Assistance - The State receives federal financial assistance for specified purposes which are subject to review and audit in accordance with the Single Audit Act of 1984. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 1996.

USDA Commodities - In fiscal year 1996, the State distributed $6,796,848 in commodities. The value at June 30, 1996, of commodities stored in the State's warehouses is $1,643,994 for which the State is liable in the event of loss.

Social Security - The Social Security Administration (SSA) has assessed the State for the alleged failure to withhold and forward social security contributions for part-time employees for the years 1984 through 1986. In January 1996, a final administrative decision was made against the State and local governments establishing a preliminary assessment of $2.16 million plus simple interest of 6 per cent per annum. Of the principal amount, $720,000 plus interest of approximately $1.0 million is estimated to be the initial liability of the State's central payroll; the balance of the amount owing is the initial responsibility of various political subdivisions. The portion of that amount that the State might have to pay because of the current nonexistence of some of those political subdivisions, should not be substantial, approximately $5,000.

C. Miscellaneous Contingencies:

Commitment fees - The Board of Investments (BOI) and the Montana Health Facility Authority (MHFA) have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 1996, is $26,515,000.

The BOI has issued it's own bonds for the INTERCAP Loans that have also committed funds from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 1996, is $33,883,215.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 1996, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	Special Revenue	Debit Service	Nonexpendable Trust
Corporation	$ 6,536	$ -	$ 422	$ -
Coal Severance	9,303	3,233	4,167	18,023
Oil & Gas	3,523	-	-	-
Resource Indemnity	-	356	-	302
Totals	$ 19,362	$ 3,589	$ 4,589	$ 18,325

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed 100% to the General Fund.

21. SUBSEQUENT EVENTS

On July 24, 1996, the State issued $30,075,000 of General Obligation Bonds, Series 1996D (Long-Range Building Program) for building construction.

On July 24, 1996, the Department of Natural Resources and Conservation issued $1,000,000 of General Obligation Bonds, Series 1996E (Renewable Resource Loan Program).

On August 1, 1996, the Montana Health Facility Authority (MHFA) issued a $2,313,318 revenue note which was privately placed with GE Capital Public Finance, Inc. This obligation does not constitute a debt, liability, obligation or pledge of faith and credit of the State.

On August 1, 1996 and August 15,1996, the MHFA issued $20,730,000 (Series 1996) and $17,835,000, respectively, of Health Care Facilities Revenue Bonds. These obligations do not constitute a debt, liability, obligation or pledge of faith and credit of the State.

On August 1, 1996 the MHFA issued $5,085,000 in bonds for its third Master Loan Program. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State. These bonds are covered by a capital reserve account agreement between MHFA and the Board of Investments (BOI). See Note 20 for additional information on this agreement and other commitments.

On August 15, 1996, the Board of Regents of the Montana University System issued $43,540,000 of Facilities Improvement and Refunding Revenue Bonds, Series 1996D, for Montana State University. On October 15, 1996, it also issued $25,541,127 of Facilities Improvement Revenue Bonds, Series 1996D, for the University of Montana.

On September 19, 1996, the Board of Housing (Housing Authority) issued $65,000,000 of Single Family Program Bonds, Series 1996A.

On September 24, 1996, the Board of Directors of the State Compensation Insurance Fund, a Component Unit of the State of Montana, declared a dividend payable to the Old Fund not to exceed $109 million from excess surplus funds. State statute requires that any dividends declared must be used to pay off the Old Fund liability. An amount of the dividend not to exceed $12 million was designated as a return of the New Fund's contributed capital. The State Fund Board of Directors instructed the State of Montana Board of Investments to use the allocated excess surplus funds to retire the outstanding Old Fund bond debt. The timing of such retirement is at the discretion of the Board of Investments (BOI).

On October 3, 1996, the State Compensation Insurance Fund deposited with an escrow agent $80,061,243 of the $109 million dividend plus $11,322,812 of debt service reserve funds and $8,000,000 of excess OFLT collections not required to pay claims to be invested in federal securities to provide for future debt service payments on the Series 1991 Payroll Tax Bonds. The escrow is irrevocable, but BOI retained the right to call the bonds prior to maturity if the value of the escrow is sufficient to do so. The transaction met the requirements of a legal defeasance and the State Fund defeased $97,885,000 of the 6.875 percent term bonds due on June 1, 2020.

On October 23, 1996, the State issued $59,500,000 of Tax and Revenue Anticipation Notes, Series 1996, due June 27, 1997. The proceeds of the Notes provide cash to support expenditures from the general fund, pending the receipt of taxes and revenues, for the fiscal year ending June 30, 1997.

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1996

CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
Department of Agriculture		
	Agricultural Research Service	
10.001	Agricultural Research-Basic and Applied Research	$635,737
	Animal and Plant Health Inspection Service	
10.025	Plant and Animal Disease, Pest Control and Animal Care	114,706
	Natural Resources Conservation Service	
10.063	Agricultural Conservation Program	3,559
10.064	Forestry Incentives Program	496
10.901	Resource Conservation and Development	54,744
10.902	Soil and Water Conservation	13,206
10.903	Soil Survey	12,804
	Agricultural Marketing Service	
10.156	Federal-State Marketing Improvement Program	
	Passed through from WUSATA	11,444
10.162	AMS-Inspection Grading and Standardization	30,652
	Cooperative State Research, Education, and Extension Service	
10.200	Grants for Agricultural Research, Special Research Grants	1,093,035
	Passed through from Michigan State University	27,624
	Passed through from University of Idaho	9,413
	Passed through from University of Wyoming	5,506
	Passed through from Utah State University	2,000
	Passed through from Washington State University	53,977
10.202	Cooperative Forestry Research	396,911
10.203	Payments to Agricultural Experiment Stations Under Hatch Act	1,922,603
10.206	Grants for Agricultural Research-Competitive Research Grants	1,006,714
10.207	Animal Health and Disease Research	75,327
10.215	Sustainable Agriculture Research and Education	(94)
	Passed through from Utah State University	4,870
10.217	Higher Education Challenge Grants	9,386
10.500	Cooperative Extension Service	3,552,478
	Passed through from University of Wisconsin	2,429
	Passed through from Utah State University	12,539
	Economic Research Service	
10.250	Agricultural and Rural Economic Research	276,777
10.299	Other Miscellaneous Non-Major Grants	10,057
	Farm Service Agency	
10.450	Crop Insurance	
	Passed through from University of North Carolina	5,158
	Food Safety and Inspection Service	
10.475	Cooperative Agreements with States for Meat and Poultry Inspections	293,131

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1996

CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
	Food and Consumer Service	
10.550	Food Distribution	2,141,638
10.551	Food Stamps	58,961,485
10.553	School Breakfast Program	2,155,097
10.555	National School Lunch Program	13,129,797
10.556	Special Milk Program for Children	49,692
10.557	Special Supplemental Food Program for Women, Infants, and Children	11,795,512
10.558	Child and Adult Care Food Program	8,500,643
10.559	Summer Food Service Program for Children	593,029
10.560	State Administrative Expenses for Child Nutrition	279,980
10.561	State Administrative Matching Grants for Food Stamp Program	5,973,116
10.564	Nutrition Education and Training Program	297,330
10.567	Food Distribution Programs on Indian Reservations	4,075,189
10.568	Emergency Food Assistance (Administrative Costs)	132,194
10.569	Emergency Food Assistance (Food Commodities)	73,206
10.570	Nutrition Program for the Elderly (Commodities)	1,168,087
10.571	Food Commodities for Soup Kitchens	168,820
	Foreign Agricultural Service	
10.600	Foreign Agricultural Market Development and Promotion	4,641
10.961	International Agricultural Research Program	31,507
	Forest Service	
10.652	Forestry Research	2,078,133
10.664	Cooperative Forestry Assistance	1,290,930
10.665	Schools and Roads-Grants to States	10,567,502
	Miscellaneous	
10.999	Other Miscellaneous Non-Major Grants	237,706
	Total for Agency	**$133,342,423**
Department of Commerce		
	Economic Development Administration	
11.300	Economic Development-Grants for Public Works and Infrastructure Development	$56,138
11.303	Economic Development-Technical Assistance	50,985
11.305	State and Local Economic Development Planning	10,828
11.307	Special Economic Development and Adjustment Assistance Program	241,175
	National Oceanic and Atmospheric Administration	
11.446	Antarctic Marine Living Resources	34,547
	National Telecommunications and Information Administration	
11.550	NTIA	1,546
11.552	Telecommunications and Information Infrastructure Assistance Program	40,055
	National Institute for Standards and Technology	
11.611	Manufacturing Extension Partnership	48,699

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CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
	Minority Business Development Agency	
11.800	Minority Business Development Centers	39,198
	Miscellaneous	
11.999	Other Miscellaneous Non-Major Grants	(2,885)
	Total for Agency	$520,286
Department of Defense		
	Department of the Army, Office of the Chief of Engineers	
12.106	Flood Control Projects	$10,306
12.107	Navigation Projects	7,117
12.110	Planning Assistance to States	2,833
12.114	Collaborative Research and Development	390,497
12.199	Other Miscellaneous Non-Major Grants	185,655
	Department of the Navy, Office of the Chief of Naval Research	
12.300	Basic and Applied Scientific Research	215,826
	National Guard Bureau	
12.400	Military Construction, National Guard	246,301
12.401	National Guard Military Operations and Maintenance Projects	4,323,874
	U.S. Army Materiel Command	
12.431	Basic Scientific Research	225,107
	Department of the Air Force, Materiel Command	
12.800	Air Force Defense Research Sciences Program	114,767
	National Security Agency	
12.901	Mathematical Sciences Grants Program	5,320
	Advanced Research Projects Agency	
12.910	Research and Technology Development	99,297
12.911	Defense Technology Conversion, Reinvestment and Transition Assistance	13,545
	Miscellaneous	
12.999	Other Miscellaneous Non-Major Grants	359,306
	Total for Agency	$6,199,751
Department of Housing and Urban Development		
	Community Planning and Development	
14.228	Community Development Block Grant/State's Program	$6,790,534
14.231	Emergency Shelter Grants Program	343,051
14.239	HOME Investment in Affordable Housing	2,884,259

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CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
	Office of Fair Housing and Equal Opportunity	
14.401	Fair Housing Assistance Program-State and Local	190,596
	Public and Indian Housing	
14.855	Section 8 Rental Voucher Program	2,265,147
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	4,092,237
14.857	Section 8 Rental Certificate Program	7,818,380
	Miscellaneous	
14.999	Other Miscellaneous Non-Major Grants	56,742
	Total for Agency	**$24,440,946**
	Department of the Interior	
	Bureau of Indian Affairs	
15.114	Indian Education-Higher Education Grant Program	$59,158
	Passed through from Northern Cheyenne	28,274
15.130	Indian Education-Assistance to Schools	12,044
15.143	Training and Technical Assistance-Indian Tribal Governments	91,950
15.160	Fish and Wildlife Cooperative Act	3,438
15.199	Tongue River - Northern Cheyenne Tribal Loan	1,503,066
	Bureau of Land Management	
15.200	BLM - Cooperative Assistance Agreement	1,776
15.219	Wildlife Habitat Management Technical Assistance	102,197
15.221	Cooperative Agreements for Research in Public Lands Management	32,275
15.223	Recreation and Cultural Resource Management	44,552
15.224	Cultural Resource Management	18,314
15.225	Recreation Resource Management	7,521
	Office of Surface Mining Reclamation and Enforcement	
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	826,897
15.252	Abandoned Mine Land Reclamation Program	4,513,591
15.299	Other Miscellaneous Non-Major Grants	383,472
	Bureau of Reclamation	
15.502	Irrigation Systems Rehabilitation and Betterment	166,522
15.503	Small Reclamation Projects	212,776
	U.S. Fish and Wildlife Service	
15.600	Anadromous Fish Conservation	33,458
15.604	Fishery Research - Information	13,048
15.605	Sport Fish Restoration	4,087,251
15.608	Fish and Wildlife Management Assistance	303,422
15.610	Wildlife Research Information	111,943
15.611	Wildlife Restoration	6,070,874
15.612	Endangered Species Section 6	166,963

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CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
15.616	Clean Vessel Act	19,300
15.699	Other Miscellaneous Non-Major Grants	313,212
	Geological Survey	
15.805	Assistance to State Water Resources Research Institutes	91,887
15.806	National Water Resources Research Program	16,139
15.807	Earthquake Hazards Reduction Program	34,902
15.808	Geological Survey-Research and Data Acquisition	228,253
15.975	Research Information	210,019
15.977	State Partnerships	6,254
	National Park Service	
15.904	Historic Preservation Fund Grants-In-Aid	498,985
15.910	National Natural Landmarks Program	4,158
15.912	National Historical Landmark	68,988
15.915	Technical Preservation Services	204,947
15.916	Outdoor Recreation-Acquisition, Development and Planning	179,984
15.919	Urban Park and Recreation Recovery Program	436
15.921	Rivers, Trails and Conservation Assistance	1,410
15.929	Other Miscellaneous Non-Major Grants	6,655
	Miscellaneous	
15.999	Other Miscellaneous Grants	21,715,690
	Passed through from University of Wyoming	3,500
	Total for Agency	**$42,399,501**
Department of Justice		
	Drug Enforcement Administration	
16.001	Law Enforcement Assistance-Narcotics and Dangerous Drugs-Laboratory Analysis	$68,048
	Office of Juvenile Justice and Delinquency Prevention	
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	947,991
16.546	Title V - Delinquency Prevention Program	116,118
16.549	Part E - State Challenge Activities	87,500
16.726	Juvenile Mentoring Program	66,415
	Bureau of Justice Statistics	
16.550	Criminal Justice Statistics Development	37,384
	National Institute of Justice	
16.560	Justice Research Development and Evaluation Projects Grants	45,498
	Bureau of Justice Assistance	
16.572	State Criminal Alien Assistance Program	16,892
16.575	Crime Victim Assistance	420,000
16.576	Crime Victim Compensation	77,000

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CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
16.579	Drug Control and System Improvement--Formula Grant	2,394,516
	Passed through from Local Governments	36,788
16.580	Edward Byme Memorial State and Local Law Enforcement Program	27,792
16.582	Crime Victim Assistance/Discretionary Grants	70,000
16.588	Violence Against Women Formula Grants	405,299
	Bureau of Prisons	
16.603	Corrections - Technical Assistance/Clearinghouse	10,000
	Office of Community Oriented Policing Services	
16.711	Troops to COPS	8,879
16.727	Criminal History Record Improvement	335,000
	Miscellaneous	
16.999	Other Miscellaneous Non-Major Grants	996
	Total for Agency	$5,172,116
	Department of Labor	
	Bureau of Labor Statistics	
17.002	Labor Force Statistics	$612,254
17.005	Compensation and Working Conditions Data	51,596
	Employment and Training Administration	
17.203	Labor Certification for Alien Workers	240,853
17.207	Employment Service	6,360,544
	Passed through from State of Rhode Island	9,639
17.225	Unemployment Insurance	11,431,361
17.245	Trade Adjustment Assistance-Workers	2,018,780
17.246	Employment and Training Assistance-Dislocated Workers	3,182,195
17.248	Employment and Training Research and Development Projects	40,000
17.249	Employment Services and Job Training-Pilot and Demonstration Programs	571,488
17.250	Job Training Partnership Act	6,220,936
	Passed through from Montana Job Training Partnership Incorporated	1,630,601
	Occupational Safety and Health Administration	
17.504	Consultation Agreements	155,096
	Mine Safety and Health Administration	
17.600	Mine Health and Safety Grants	72,626
	Office of the Secretary, Women's Bureau	
17.700	Women's Special Employment Assistance	216,915
	Office of the Assistant Secretary for Veterans' Employment and Training	
17.801	Disabled Veterans Outreach Program	242,332
17.802	Veterans Employment Program	41,778
17.804	Local Veterans Employment Representative Program	502,832

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CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
	Miscellaneous	
17.999	Other Miscellaneous Non-Major Grants	117,748
	Total for Agency	**$33,719,574**
	Department of State	
19.999	Other Miscellaneous Non-Major Grants	$114,531
	Total for Agency	**$114,531**
	Department of Transportation	
	United States Coast Guard	
20.005	Boating Safety Financial Assistance	$183,165
	Federal Aviation Administration	
20.106	Airport Improvement Program	75,000
	Federal Highway Administration	
20.205	Highway Planning and Construction	169,612,246
20.215	Highway Training and Education	165,166
20.218	Motor Carrier Safety Assistance Program	517,925
20.219	National Recreational Trails Funding Program	40,958
	Federal Railroad Administration	
20.308	Local Rail Freight Assistance	5,830
	Federal Transit Administration	
20.505	Federal Transit Technical Studies Grants	187,756
20.507	Federal Transit Capital and Operating Assistance Formula Grants	711,487
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	313,035
	National Highway Traffic Safety Administration	
20.600	State and Community Highway Safety	1,080,464
	Research and Special Programs Administration	
20.700	Pipeline Safety	25,536
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	38,778
	Total for Agency	**$172,957,346**

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CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
	Department of the Treasury	
21.999	Other Miscellaneous Non-Major Grants	$4,579
	Total for Agency	**$4,579**
	Equal Employment Opportunity Commission	
30.002	Employment Discrimination-State and Local Fair Employment Practices	$98,700
	Total for Agency	**$98,700**
	General Services Administration	
39.003	Donation of Federal Surplus Personal Property	$1,005,766
	Total for Agency	**$1,005,766**
	National Aeronautics and Space Administration	
43.001	Aerospace Education Services Program	$1,458,995
	Passed through from California Institute of Technology	9,037
	Passed through from Lockheed	22,495
	Passed through from Scientific Material Colorado	(2,731)
	Passed through from University of North Dakota	22,984
43.002	Technology Utilization	318,278
	Passed through from Research Development Institute	8,621
	Passed through from Texas A&M University System	21,254
43.999	Other Miscellaneous Non-Major Grants	349,628
	Total for Agency	**$2,208,561**
	National Foundation on the Arts and the Humanities	
	National Endowment for the Arts	
45.003	Promotion of the Arts-Arts in Education	$50,300
45.007	Promotion of the Arts-State and Regional Programs	444,640
45.009	Promotion of the Arts-Visual Arts	98,506
45.011	Promotion of the Arts-Presenting	924
45.015	Promotion of the Arts-Folk Arts	18,749
45.022	Promotion of the Arts-Advancement Grants	7,958
45.023	Promotion of the Arts-Local Arts	82,346
	National Endowment for the Humanities	
45.113	Promotion of the Humanities-Special Projects	1,533
45.127	Promotion of the Humanities-Elementary and Secondary Education	32,341
45.129	Promotion of the Humanities-Federal/State Partnership	18,743
	Passed through from Montana Committee for the Humanities	15,590
45.162	Promotion of the Humanities-Education Development and Demonstration	20,521

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CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
45.199	Other Miscellaneous Non-Major Grants	8,206
	Institute of Museum Services	
45.301	Institute of Museum and Library Services	48,158
	Total for Agency	**$848,515**
	National Science Foundation	
47.000	Career Program	$55,939
47.041	Engineering Grants	248,047
47.049	Mathematical and Physical Sciences	2,154,690
	Passed through from Montana Council of Teachers of Math	1,852,550
	Passed through from University of Georgia	4,330
47.050	Geosciences	241,404
47.051	Biological, Behavioral, and Social Sciences	83,188
47.053	Scientific, Technological, and International Affairs	98,885
47.066	Teacher Preparation and Enhancement	242,738
47.067	Materials Development and Informal Science Education	(104)
47.069	Research Initiation and Improvement	912,989
47.070	Computer and Information Science and Engineering	54,800
47.071	Undergraduate Science, Mathematics, and Engineering Education	6,401
47.072	Young Scholars	(142)
47.073	Science and Technology Centers	1,666,974
47.074	Biological Sciences	1,418,145
	Passed through from Temple University	16,196
47.075	Social, Behavioral and Economic Sciences	78,421
47.076	Education and Human Resources	3,856,774
47.077	Academic Research Facilities and Instrumentation	1,026,916
	Passed through from Salish Kooteni College	33,588
47.999	Other Miscellaneous Non-Major Grants	66,421
	Passed through from Desert Research Institute	50,457
	Total for Agency	**$14,169,607**
	Small Business Administration	
59.000	Small Business Administration - Technical Assistance Grant	$51,063
59.005	Business Development Assistance to Small Business	370,053
59.007	National American Outreach & Development	25,699
59.037	Small Business Development Center	342,824
59.045	Natural Resource Development	12,500
	Total for Agency	**$802,139**
	Department of Veterans Affairs	
	Veterans Health Administration	
64.005	Grants to States for Construction of State Home Facilities	$282,329

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CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
64.014	Veterans State Domiciliary Care	140,312
64.015	Veterans State Nursing Home Care	1,164,111
	Veterans Benefits Administration	
64.111	Veterans Educational Assistance	67,531
64.124	All-Volunteer Force Educational Assistance	515
64.199	Other Miscellaneous Non-Major Grants	2,831
	National Cemetery System	
64.203	State Cemetery Grants	56,580
	Total for Agency	$1,714,209
Environmental Protection Agency		
	Office of Air and Radiation	
66.SS1	Pollution Prevention Grants	$59,020
66.001	Air Pollution Control Program Support	999,278
66.032	State Indoor Radon Grants	31,531
	Office of Water	
66.418	Construction Assistance for Waste Water Treatment	154,796
66.419	Water Pollution Control-State and Interstate Program Support	748,090
66.420	State and Local Manpower Development	105,717
66.423	Water Quality Control Information	18,064
66.432	State Public Water System Supervision	784,463
66.435	Water Pollution Control-Lake Restoration Cooperative Agreements	78,320
66.438	Construction Management Assistance	210,761
66.454	Water Quality Management Planning	67,703
66.456	National Estuary Program	191,435
66.458	Capitalization Grants for State Revolving Funds	3,270,441
66.460	Nonpoint Source Implementation Grants	1,019,361
66.461	Wetlands Protection--State Development Grants	70,242
66.463	National Pollutant Discharge Elimination System Related State Program Grants	106,602
66.499	Other Miscellaneous Non-Major Grants	20,265
	Office of Research and Development	
66.500	Environmental Protection-Consolidated Research	683,468
66.502	Pesticides Control Research	76,251
66.505	Water Pollution Control-Research, Development, and Demonstration	59,438
66.507	Toxic Substance Research	
	Passed through from Kansas State University	58,355
66.599	Other Miscellaneous Non-Major Grants	21,762
	Office of Enforcement and Compliance Assurance	
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	523,149
66.701	Toxic Substances Compliance Monitoring Program	(2,760)
66.708	Pollution Prevention Grants Program	2,666

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CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
	Office of Solid Waste and Emergency Response	
66.801	Hazardous Waste Management State Program Support	358,850
	Passed through from Kansas State University	185,696
66.802	Hazardous Substance Response Trust Fund	2,059,081
	Passed through from Kansas State University	20,748
66.804	State Underground Storage Tanks Program	144,363
66.805	Underground Storage Tank Trust Fund Program	726,864
66.807	Superfund Innovative Technology Evaluation Program	
	Passed through from CDM-Federal	25,834
66.808	Solid Waste Management Assistance	4,352
	Office of Prevention, Pesticides and Toxic Substances	
66.900	Pollution Prevention	30,820
	Office of Environmental Education	
66.950	Environmental Education and Training Program	138,323
66.951	Environmental Education Grants	20,014
	Miscellaneous	
66.999	Other Miscellaneous Non-Major Grants	79,319
	Passed through from American Water Works	2,922
	Total for Agency	**$13,155,604**
Overseas Private Investment Corporation		
70.003	Foreign Investment Insurance	$2,458
	Total for Agency	**$2,458**
Department of Energy		
81.004	University Laboratory Cooperative Program	$27,159
81.041	State Energy Conservation	306,547
81.042	Weatherization Assistance for Low-Income Persons	2,599,858
81.049	Basic Energy Sciences, University and Science Education	29,102
	Passed through from University of Nebraska - Lincoln	4,602
81.064	Office of Scientific and Technical Information	21,105
81.077	University Research Instrumentation	72,419
81.079	Regional Biomass Energy Programs	180,391
81.080	Office of Policy Financial Assistance	1,758
81.086	Conservation Research and Development	1,888,433
81.087	Renewable Energy Research and Development	152,630
	Passed through from National Renewal Energy Lab	109,196
81.092	Environmental Restoration	236,992
	Passed through from University of New Mexico	99,686
81.099	Minority Math Science Leadership Development	735,588
81.104	Technology Development for Environmental Management	50,213

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CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
81.999	Other Miscellaneous Non-Major Grants	336,935
	Passed through from MACTEC	47,480
	Passed through from Society of Manufacturing Engineers	6,858
	Total for Agency	**$6,906,952**

United States Information Agency

CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
82.001	Educational Exchange - Graduate Students	$155,512
	Total for Agency	**$155,512**

Federal Emergency Management Agency

CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
83.010	National Fire Academy-Educational Program	$3,555
83.011	Hazardous Materials Training for Implementation of the Superfund Amendment	116,528
83.012	Hazardous Materials Fund	53,703
83.105	Community Assistance Program - States Support Services Element	60,005
83.503	Civil Defense-State and Local Emergency Management Assistance	190,525
83.505	State Disaster Preparedness Grants	49,684
83.516	Disaster Assistance	1,087,925
83.521	Earthquake Hazards Reduction Grants	54,692
83.528	Emergency Management Institute-Field Training Program	18,005
83.531	State and Local Emergency Management Assistance	74,229
83.534	Emergency Management - State and Local Assistance	728,642
	Total for Agency	**$2,437,493**

Department of Education

CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
84.002	Adult Education-State Grant Program	$856,760
84.003	Bilingual Education	23,730
84.004	Desegregation Assistance, Civil Rights Training, and Advisory Services	177,604
84.007	Supplemental Educational Opportunity Grants	1,279,557
84.009	Education of Handicapped Children in State Operated or Supported Schools	43,586
84.010	Title 1 Grants to Local Educational Agencies	25,337,305
84.011	Migrant Education-Basic State Grant Program	714,052
84.012	Educationally Deprived Children-State Administration	68,450
84.013	Title 1 Program for Neglected and Delinquent Children	38,252
84.021	International: Overseas - Group Projects Abroad	31,803
84.024	Early Education for Children with Disabilities	384,443
84.025	Services for Children with Deaf-Blindness	122,308
84.026	Media and Captioned Services for Individuals with Disabilities	2,108
84.027	Special Education-State Grants	8,126,070
84.029	Special Education Personnel Development and Parent Training	337,342
84.031	Higher Education-Institutional Aid	4,262
84.032	Federal Family Education Loans	966,014
84.033	Federal Work Study Program	2,170,721
84.034	Public Library Services	426,701

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CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
84.035	Interlibrary Cooperation and Resource Sharing	104,790
	Passed through from Lewis & Clark Library	6,115
84.036	Library Education and Training	28,859
84.038	Federal Perkins Loan Program - Federal Capital Contributions	988,567
84.042	Student Support Services	894,104
84.044	Talent Search	407,137
84.047	Upward Bound	1,012,067
84.048	Vocational Education-Basic Grants to States	4,716,898
	Passed through from Great Falls School District #1/OPI	8,654
84.053	Vocational Education-State Councils	158,569
84.055	Higher Education-Cooperative Education	211,353
84.061	Indian Education-Special Programs and Projects	30,153
84.063	Federal Pell Grant Program	16,194,649
84.066	Educational Opportunity Centers	402,380
84.069	State Student Incentive Grants	182,980
84.073	National Diffusion Network	92,129
84.086	Special Education - Program for Severely Disabled Children	176,771
84.094	Patricia Roberts Harris Fellowships	25,290
84.097	Law School Clinical Experience Program	162,320
84.116	Fund for the Improvement of Postsecondary Education	32,181
84.117	Educational Research and Development	(5)
84.123	Law-Related Education	66,667
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	8,133,011
84.128	Rehabilitation Services-Service Projects	124,485
84.129	Rehabilitation Training	69,349
84.133	National Institute on Disability and Rehabilitation Research	635,035
84.151	Federal, State, and Local Partnerships for Educational Improvement	253,901
84.153	Business and International Education	18,047
84.154	Public Library Construction and Technology Enhancement	207,959
84.158	Secondary Education and Transitional Services for Youth with Disabilities	165,228
84.160	Training Interpreters for Individuals who are Deaf and Deaf-Blind	
	Passed through from Front Range Community College	1,010
84.162	Immigrant Education	10,044
84.164	Eisenhower Mathematics and Science Education State Grants	218,175
84.167	Library Literacy	13,047
84.168	Eisenhower Professional Development: National Activities	151,547
84.169	Independent Living - State Grants	254,515
84.173	Special Education-Preschool Grants	1,345,583
84.177	Rehabilitation Services-Independent Living Services for Older Blind Individuals	198,180
84.181	Special Education-Grants for Infants and Families with Disabilities	1,335,681
84.183	Higher Education Consortia for Drug Prevention	76,584
84.185	Byrd Honors Scholarships	96,300
84.186	Drug-Free Schools and Communities	2,050,824
84.187	Supported Employment Services for Individuals with Severe Disabilities	295,552
84.190	Christa McAuliffe Fellowships	28,335
84.194	Bilingual Education Support Services	60,394
84.195	Bilingual Education: Professional Development	137,759
84.196	Education for Homeless Children and Youth	118,301
84.197	College Library Technology	68,720

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CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
84.203	Star Schools	
	Passed through from State of Washington	50,389
84.213	Even Start-State Educational Agencies	494,180
84.214	Even Start - Migrant Education	
	Passed through from State of Wisconsin	25,267
84.215	Fund for the Improvement of Education	210,703
84.216	Capital Expenses	31,840
84.217	Ronald E. McNair Post-Baccalaureate Achievement	123,085
84.218	State School Improvement Grants	13,168
84.224	State Grants for Assistive Technology	646,845
84.234	Projects with Industry	51,334
84.235	Vocational Rehabilitation Services to Individuals with Severe Disabilities	39,488
84.242	National Science Scholars	3,332
84.243	Tech-Prep Education	446,054
84.254	Adult Education Literacy	650
84.265	Rehabilitation Training - Continuing Education	20,269
84.266	Training in Early Childhood Education and Violence Counseling	380,243
84.268	Federal Direct Student Loan	27,543,477
84.276	Goals 2000	148,489
84.281	Eisenhower Professional Development State Grants	907,457
84.298	Innovative Education Program Strategies	1,596,587
84.998	American Printing House for the Blind	3,524
84.999	Other Miscellaneous Non-Major Grants	123,798
	Passed through from Helena Public Schools	32,802
	Total for Agency	**$115,974,243**
	Department of Health and Human Services	
	Administration on Aging	
93.041	Title VII, Chapter 3 - Programs for Prevention of Abuse, Neglect, and Exploitation	$1,028
93.042	Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	22
93.043	Title III, Part F - Disease Prevention and Health Promotion Services	100,234
93.044	Title III, Part B - Grants for Supportive Services and Senior Centers	1,669,754
93.045	Title III, Part C - Nutrition Services	2,585,932
93.048	Title IV - Training, Research and Discretionary Projects and Programs	90,184
93.049	Title VII, Chapter 6 - Allotments for Vulnerable Elder Rights Protection Programs	9,952
93.050	White House Conference on Aging - State Conference	1,000
	Public Health Service-I	
93.103	Food and Drug Administration-Research	4,061
93.107	Area Health Education Centers - Model Programs	15,659
93.110	Maternal and Child Health Federal Consolidated Programs	132,704
93.113	Biological Response to Environmental Health Hazards	128,095
93.114	Applied Toxicological Research and Testing	54,405
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	105,625
93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	239,246
93.119	Grants for Technical Assistance - Mental Health Services	78,352
93.125	Mental Health Planning and Demonstration Projects	205,767

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1996

CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
93.127	Emergency Medical Services for Children	17,461
93.130	Primary Care Services-Resource Coordination and Development Agreements	165,033
93.150	Projects for Assistance in Transition from Homelessness	301,209
93.184	Disabilities Prevention	80,738
93.186	National Research Service Awards	
	Passed through from University of Washington	29,932
93.193	Urban Indian Health Services	5,823
93.197	Childhood Lead Poisoning Prevention Projects--State and Community-Based	82,122
93.199	HIV Home and Community-Based Health Services	1,491
93.214	Extramural Research Facilities Construction Projects	74,578
93.217	Family Planning-Services	1,005,624
93.242	Mental Health Research Grants	4,881
93.263	Occupational Safety and Health-Training Grants	60,754
93.268	Childhood Immunization Grants	2,162,093
93.273	Alcohol Research Programs	86,485
93.279	Drug Abuse research Programs	34,557
93.283	Centers for Disease Control-Investigations and Technical Assistance	580,770
93.298	Nurse Practitioner and Nurse Midwife Education Programs	245,522
93.333	Clinical Research	(1,739)
93.337	Biomedical Research Support	195,476
93.342	Health Professions Student Loans/Loans for Disadvantaged Students	84,415
93.358	Professional Nurse Traineeships	25,147
93.364	Nursing Student Loans	9,143
93.375	Minority Biomedical Research Support	239,759
93.390	Academic Research Enhancement Award	32,769
93.393	Cancer Cause and Prevention Research	7,951
93.395	Cancer Treatment Research	108,491
93.396	Cancer Biology Research	137,865
	Administration for Children and Families	
93.556	Family Preservation and Support Services	185,671
93.560	Family Support Payments to States-Assistance Programs	37,043,064
93.561	Job Opportunities and Basic Skills Training	2,736,185
93.563	Child Support Enforcement	7,885,998
93.566	Refugee and Entrant Assistance-State Administered Programs	110,109
93.568	Low-Income Home Energy Assistance	5,835,197
93.569	Community Services Block Grant	1,844,891
93.571	Community Services Block Grant Awards-Community Food and Nutrition	39,199
93.572	Emergency Community Services for the Homeless	63,186
93.574	Child Care for Families At-Risk of Welfare Dependency	793,721
93.575	Child Care and Development Block Grant	4,721,378
93.576	Refugee and Entrant Assistance-Discretionary Grants	146,982
93.586	State Court Improvement Program	85,958
93.600	Head Start	9,652
93.614	Child Development Associate Scholarships	4,015
93.630	Developmental Disabilities-Basic Support and Advocacy Grants	315,795
93.632	Developmental Disabilities-University Affiliated Facilities	329,002
93.643	Children's Justice Grants to States	68,620
93.645	Child Welfare Services-State Grants	1,038,073

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1996

CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
93.656	Temporary Child Care and Crisis Nurseries	228,727
93.658	Foster Care-Title IV-E	9,436,480
93.667	Social Services Block Grant	9,045,822
93.669	Child Abuse and Neglect State Grants	162,679
93.671	Family Violence Prevention and Services	210,242
93.673	Grants to States for Planning and Development of Dependent Care Programs	60,003
93.674	Independent Living	280,470
	Health Care Financing Administration	
93.775	State Medicaid Fraud Control Units	172,589
93.777	State Survey and Certification of Health Care Providers and Suppliers	1,616,443
93.778	Medical Assistance Program	281,835,288
93.779	Health Care Financing Research, Demonstrations, and Evaluations	89,051
	Public Health Service-II	
93.821	Cell Biology & Biophysics Research	159,842
93.822	Health Careers Opportunity Program	148,463
93.838	Lung Diseases Research	98,117
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	128,978
93.854	Biological Basis Research in the Neurosciences	403,737
93.855	Allergy and Immunology Transplantation Research	371,921
93.856	Microbiology and Infectious Diseases Research	801,099
	Passed through from Harbor UCLA	54,840
	Passed through from Purdue University	21,536
93.859	Pharmacology, Physiology, & Biological Chemistry Research	234,953
93.862	Genetics and Developmental Biology Research	245,423
93.863	Cellular and Molecular Basis of Disease Research	334,829
93.867	Vision Research	243,865
93.879	Medical Library Assistance	26,217
93.880	Minority Access to Research Careers	71,123
93.912	Rural Health Services Outreach	213,723
93.913	Grants to States for Operations of Offices of Rural Health	45,467
	Passed through from Montana AHEC	4,471
93.917	HIV Care Formula Grants	109,288
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds	10,288
93.940	HIV Prevention Activities - Health Department Based	1,086,773
93.944	HIV/AIDS Surveillance	78,737
93.951	Demonstration Grants to States with Respect to Alzheimer's Disease	262,442
93.953	Modification of Trauma Care Component of State EMS Plan	93,246
93.958	Block Grants for Community Health Services	871,483
93.959	Block Grants for Prevention and Treatment of Substance Abuse	3,118,453
93.960	Special Minority Initiatives	78,762
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	240,832
93.988	Cooperative Agreements for State-Based Diabetes Control Programs	188,103
93.991	Preventive Health and Health Services Block Grant	1,047,608
93.994	Maternal and Child Health Services Block Grant	2,450,238

State of Montana
Schedule of Federal Financial Assistance by Federal Agency and Program
For the Fiscal Year Ending June 30, 1996

CFDA #	Federal Assistance Program by Federal Agency	1995 - 1996 Assistance Amount
	Miscellaneous	
93.999	Other Miscellaneous Non-Major Grants	207,183
	Passed through from State of Colorado	86,058
	Total for Agency	**$391,132,958**
	Corporation for National and Community Service	
94.003	State Commissions	$128,857
94.004	Learn and Serve America - School and Community Based Programs	56,600
94.005	Learn and Serve America - Higher Education	114,797
94.006	AmeriCorps	1,119,136
94.009	Training and Technical Assistance	46,994
94.999	Other Miscellaneous Non-Major Grants	9,341
	Total for Agency	**$1,475,725**
	Social Security Administration	
96.001	Social Security - Disability Insurance	$2,870,135
	Total for Agency	**$2,870,135**
	Miscellaneous	
99.999	Other Miscellaneous Non-Major Grants	$875,160
	Passed through from University Polytech Institute	14,598
	Total for Agency	**$889,758**
	Grand Total	**$974,719,388**

STATE OF MONTANA
NOTES TO THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE FOR THE FISCAL YEAR ENDED JUNE 30, 1996

Note 1. Basis of Accounting

The assistance amounts presented on the accompanying Schedule of Federal Financial Assistance of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Programs

The amounts reported for Food Distribution programs (CFDA # 10.550, 10.559, 10.567, 10.569, 10.570, and 10.571) represent the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the commodities programs is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 1995-96, Montana distributed $1,256,599 of food commodities under CFDA #10.567 to other states.

Federal Surplus Personal Property

In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is valued at 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for State Revolving Funds (CFDA # 66.458) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 1996 is $21,216,236.

Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 1996 is $1,306,461.

Mineral Leasing Program

The amount reported for CFDA #15.999 includes $21,320,371 for the Mineral Leasing Program from the Department of the Interior. This amount represents cash the state received during the fiscal year.

Federal Family Education Loans

The amount of new loans guaranteed for Federal Family Education Loans (CFDA#84.032) program was $74,427,858 in fiscal year 1995-96. Claims paid for loans due to death, disability, default and bankruptcy was $12,025,482 in fiscal year 1995-96. The amount presented on the accompanying Schedule of Federal Financial Assistance, represents the administrative expenses and supplemental preclaims assistance payments received by the state for the fiscal year.

Federal Perkins Loan Program - Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program - Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 1996 is $22,838,554.

Nursing Student Loan Program

The amount reported for the Nursing Student Loan Program (CFDA #93.364) represents the federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 1996 is $1,239,329.

Note 2. Major Federal Programs

In accordance with the criteria established by the Single Audit Act of 1984 and OMB Circular A-128, a major federal financial assistance program for the State of Montana is defined as assistance to the state exceeding $4 million for any federal program in the fiscal year ended June 30.

Note 3. CFDA

The CFDA # assigned for each federal program listed in the Schedule of Federal Financial Assistance was based upon agency agreements with the federal government and the Catalogs of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.*99 or **.999. The first two digits represent the federal agency and the third digit represents the division within the federal agency. In cases where the federal agency does not have a designated CFDA#, the program was assigned a CFDA# in the format 99.999.

Note 4. Federal Excess Personal Property

The Montana Department of Natural Resources and Conservation and The University of Montana received Federal Excess Personal Property (FEPP) through the Cooperative Forestry Assistance Program (CFDA #10.664) valued at $2,086,247 and $428,737, respectively, in fiscal year 1995-96. The department's and university's perpetual inventory systems account for the FEPP based on the original acquisition cost to the federal government. Therefore the records do not reflect the current market value of the property. The department maintains property inventory records for capital and sensitive federal excess equipment, which it reconciles with the USDA, Forest Service every two years. The balances of FEPP on the department's and university's inventory records at June 30, 1996 were $15,909,039 and $2,338,651, respectively.

The federal government retains title to the property. The department and university coordinate disposal of FEPP with the U.S. Forest Service and General Services Administration. All proceeds from the sales go to the federal government. The value of FEPP related to this program is not reflected in the accompanying Schedule of Federal Financial Assistance.

The Department of Administration is the coordinating agency for the Law Enforcement Support Program (CFDA# 12.999) . This program is designed to transfer excess personal property from the U.S. Department of Defense to other federal and state law enforcement agencies. Title to property reutilized through this program does not transfer to the recipient agency. Items requested by law enforcement agencies are shipped directly to the requesting agency. The Department of Administration acts in an approving capacity and does not actually take possession of the property. Therefore, the departments' accounting records do not show the value of items distributed through this program. The value of the property distributed through this program was $123,606 for fiscal year 1995-96, which is 23.3 percent of the original acquisition cost of the property.

Note 5. Books for the Blind and Physically Handicapped

The Montana State Library receives "talking book" machines, books, and cassettes from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 1996 was $1,754,014. The accompanying Schedule of Federal Financial Assistance does not include this amount.

Note 6. Subgrants

Federal assistance subgranted from one Montana state agency to another Montana state agency is excluded from the Schedule of Federal Financial Assistance.

Federal assistance received from nonstate sources which are considered subgrants by the awarding agency are treated as passthrough grants to the state and are reported on the Schedule of Federal Financial Assistance.

LEGISLATIVE AUDIT DIVISION

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John W. Northey, Legal Counsel
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Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
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INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for the fiscal year ended June 30, 1996, and have issued our report thereon dated October 25, 1996. As stated in our report on the general purpose financial statements for the fiscal year ended June 30, 1996, we did not audit the financial activity of the Office of Public Instruction. This financial activity was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this agency, is based on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

The management of the state of Montana is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general purpose financial statements of the state of Montana, for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the state's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

Our audit disclosed a reportable condition concerning internal controls at one agency, the Department of Public Health and Human Services. The condition relates to inappropriate design and incomplete implementation of control policies and procedures in several of the internal control structure elements. These matters are discussed in issues 13-1 through 13-10 in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we consider the reportable condition described above to be a material weakness. This condition was considered in determining the nature, timing and extent of procedures performed in our audit of the general purpose financial statements of the state of Montana for the fiscal year ended June 30, 1996.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information of the audit committee, management, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 25, 1996

LEGISLATIVE AUDIT DIVISION

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for the fiscal year ended June 30, 1996, and have issued our report thereon dated October 25, 1996. As stated in our report on the general purpose financial statements for the fiscal year ended June 30, 1996, we did not audit the financial activity of the Office of Public Instruction. This financial activity was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this agency, is based on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the state of Montana is the responsibility of the state of Montana's management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the state of Montana's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

The results of our tests disclosed immaterial instances of noncompliance with the above requirements that we reported to the management of the state of Montana during the course of our audit work.

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This report is intended for the information of the audit committee, management, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 25, 1996

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INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for each of the fiscal years ended June 30, 1996 and June 30, 1997, and have issued our reports thereon dated October 25, 1996 and October 30, 1997, respectively. As stated in our report on the general purpose financial statements for the fiscal year ended June 30, 1996, we did not audit the financial activity of the Office of Public Instruction. This financial activity was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this agency, is based on the report of the other auditors. We have also audited the state of Montana's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated October 30, 1997.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether the state of Montana complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the fiscal years ended June 30, 1996 and June 30, 1997, we considered the internal control structure of the state of Montana in order to determine our auditing procedures for the purpose of expressing our opinions on the general purpose financial statements, and on its compliance with requirements applicable to major programs, and to report on the internal control structure in accordance with OMB Circular A-128. We did not consider the internal control structure or assess control risk for the Office of Public Instruction which was not audited by us, and constitutes 7 percent of the total expenditures. The internal control structure for the Office was considered by other auditors whose report has been furnished to us. This report, insofar as it relates to the Office, is based solely on the report of the other auditors. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audits of the general purpose financial statements in separate reports dated October 25, 1996 and October 30, 1997.

The management of the state of Montana is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

Accounting

Cash
Revenue/Receivables
Expenditures/Payables
Central Data Processing
Property, Plant and Equipment

Payroll
Investments
Long Term Debt
Federal Assistance

Inventory
Budget Amounts
State Compliance

Administrative

General Requirements
Political Activity
Davis-Bacon Act
Civil Rights
Cash Management
Relocation Assistance and
 Real Property Acquisition
Federal Financial Reports
Allowable Costs/Cost Principles
Drug-Free Workplace
Administrative Requirements

Specific Requirements
Types of Services
Eligibility
Matching, Level of Effort,
 or Earmarking
Reporting
Cost Allocation
Special Requirements
Monitoring Subrecipients

Claims for Advances and Reimbursements

Amounts Claimed or Used For Matching

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

Because of the large number of nonmajor programs and the decentralized administration of these programs, we performed procedures to obtain an understanding of the internal control structure policies and procedures relevant to nonmajor programs on a three year cyclical basis. Our procedures covered 71 percent and 25 percent for the fiscal years ended June 30, 1996 and June 30, 1997, respectively, of the nonmajor programs administered by the state of Montana as a whole. The nonmajor programs not covered during the fiscal years ended June 30, 1996 and June 30, 1997 have been or are expected to be subject to such procedures at least once during the three year cycle.

During each of the fiscal years ended June 30, 1996 and June 30, 1997, the state of Montana expended 87 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the state of Montana's major federal financial assistance programs, which are identified in the accompanying Schedules of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the state of Montana's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

Our audits disclosed a reportable condition concerning internal controls at one agency, the Department of Public Health and Human Services. The condition relates to inappropriate design and incomplete implementation of control policies and procedures in several of the control categories described above. These matters are discussed in issues 13-1 through 13-10, in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance programs would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we consider the reportable condition described above to be a material weakness. This condition was considered in determining the nature, timing, and extent of the procedures to be performed in our audits of the compliance of the state of Montana with requirements applicable to its major federal financial assistance programs for the fiscal years ended June 30, 1996 and June 30, 1997, and this report does not affect our report thereon dated October 30, 1997.

We also noted other matters involving the internal control structure and its operation that we reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information of the audit committee, management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 30, 1997

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James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE GENERAL REQUIREMENTS APPLICABLE TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for each of the fiscal years ended June 30, 1996 and June 30, 1997, and have issued our reports thereon dated October 25, 1996 and October 30, 1997, respectively. As stated in our report on the general purpose financial statements for the fiscal year ended June 30, 1996, we did not audit the financial activity of the Office of Public Instruction. This financial activity was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this agency, is based on the report of the other auditors.

We have applied procedures to test the state of Montana's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for each of the fiscal years ended June 30, 1996 and June 30, 1997.

Cash Management
Political Activity
Federal Financial Reports
Allowable Costs/Cost Principles
Relocation Assistance and Real Property Acquisition
Civil Rights
Davis-Bacon Act
Drug-Free Workplace
Administrative Requirements

We did not apply procedures to test compliance with the general requirements for the Office of Public Instruction which was not audited by us. Those procedures were performed by other auditors, whose report was furnished to us, and this report, insofar as it relates to the Office which constitutes 7 percent of the total federal expenditures, was based solely on the report of the other auditors.

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Single Audits of State and Local Governments*. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the state of Montana's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

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Material instances of noncompliance consist of failures to follow the general requirements that caused us to conclude that the misstatements resulting from those failures are material to federal programs. The results of our tests of compliance disclosed material instances of noncompliance related to cash management that are described in issue 13-11 in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

We considered these material instances of noncompliance in forming our opinion on whether the state of Montana's general purpose financial statements as of and for each of the fiscal years ended June 30, 1996 and June 30, 1997, are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our reports dated October 25, 1996 and October 30, 1997, respectively, on those financial statements.

Except as described above, the results of our procedures to determine compliance indicate that, with respect to the items tested, the state of Montana complied, in all material respects, with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the state of Montana had not complied, in all material respects, with those requirements. However, the results of our procedures also disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Questioned Costs and the Federal Issues, Recommendations, and Responses by State Agency section of this document.

This report is intended for the information of the audit committee, management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 30, 1997

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for each of the fiscal years ended June 30, 1996 and June 30, 1997, and have issued our reports thereon dated October 25, 1996 and October 30, 1997, respectively. As stated in our report on the general purpose financial statements for the fiscal year ended June 30, 1996, we did not audit the financial activity of the Office of Public Instruction. This financial activity was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this agency, is based on the report of the other auditors.

We have also audited the state of Montana's compliance with the requirements governing types of services; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; special tests and provisions as described in the Office of Management and Budget (OMB) *Compliance Supplement for Single Audits of State and Local Governments*; monitoring subrecipients; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedules of Federal Financial Assistance, for each of the fiscal years ended June 30, 1996 and June 30, 1997. We did not audit the Office of Public Instruction's compliance with specific requirements applicable to its major programs or portions of major programs. Compliance for the Office was audited by other auditors, whose report was furnished to us, and this report, insofar as it relates to the Office which constitutes 7 percent of the total federal expenditures, was based solely on the report of the other auditors. The management of the state of Montana is responsible for the state of Montana's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audits.

We conducted our audits of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audits to

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obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the state of Montana's compliance with those requirements. We believe that our audits provide a reasonable basis for our opinion.

The results of our audit procedures disclosed an instance of material noncompliance with the requirements listed above. One agency, the Department of Public Health and Human Services, did not comply with specific requirements for eligibility. In our opinion, compliance with the specific requirements for the Foster Care - Title IV-E (CFDA #93.658) is necessary for the state of Montana to comply with the requirements applicable to this major program. This condition is further described in issues 10-3, 10-7, 10-8, and 13-13 in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

In addition, the results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to in the third paragraph, which are listed in the accompanying Schedule of Questioned Costs and described in the Federal Issues, Recommendations, and Responses by State Agency section of this document. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, based on our audits and the report of other auditors, except for the instance of noncompliance with the requirement applicable to Foster Care - Title IV-E referred to in the fourth paragraph of this report, the state of Montana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal financial assistance programs for the fiscal years ended June 30, 1996 and June 30, 1997.

This report is intended for the information of the audit committee, management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,
James Gillett
James Gillett, CPA
Deputy Legislative Auditor

October 30, 1997

LEGISLATIVE AUDIT DIVISION

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO NONMAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAM TRANSACTIONS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for each of the fiscal years ended June 30, 1996 and June 30, 1997, and have issued our reports thereon dated October 25, 1996 and October 30, 1997, respectively. As stated in our report on the general purpose financial statements for the fiscal year ended June 30, 1996, we did not audit the financial activity of the Office of Public Instruction. This financial activity was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this agency, is based on the report of the other auditors.

In connection with our audit of the general purpose financial statements of the state of Montana and with our consideration of the state of Montana's control structure used to administer federal financial assistance programs, as required by Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal years ended June 30, 1996 and June 30, 1997. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; special tests and provisions as described in OMB *Compliance Supplement for Single Audits of State and Local Governments*; monitoring subrecipients; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the state of Montana's compliance with these requirements. Accordingly, we do not express such an opinion.

We did not apply procedures to test compliance with the specific requirements applicable to nonmajor federal programs for the Office of Public Instruction which was not audited by us. Those procedures were performed by other auditors, whose report was furnished to us, and this report, insofar as it relates to the Office was based solely on the report of the other auditors.

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With respect to the items tested, the results of procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the state of Montana had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are listed in the accompanying Schedule of Questioned Costs and described in the Federal Issues, Recommendations, and Responses by State Agency section of this document.

This report is intended for the information of the audit committee, management, the federal cognizant audit agency, federal grantor agencies, and the Montana State Legislature. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 30, 1997

STATE OF MONTANA
SCHEDULE OF QUESTIONED COSTS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1997

STATE AGENCY: CFDA #	Federal Program Name	Amount Questioned	Recommendation Number	Page Number
Office of Public Instruction				
10.555	National School Lunch Program	$ 418	1-3	D-3
Judicial Branch				
16.588	Violence Against Women Formula Grant	9,528	2-1	D-7
Department of Corrections				
93.560	Family Support Payments to States - Assistance Payments	8,614	3-1	D-10
93.658	Foster Care - Title IV-E	7,088	3-1	D-10
Department of Labor and Industry				
17.245	Trade Adjustment Assistance - Workers	661	4-2	D-19
Board of Regents and Commissioner of Higher Education				
84.048	Vocational Education - Basic Grants to States	2,751	8-4	D-36
Montana Department of Transportation				
20.205	Highway Planning and Construction	103,639	9-2	D-41
Department of Public Health and Human Services Child and Adult Protective Services System				
93.560	Family Support Payments to States-Assistance Payments	356	10-8	D-57
Department of Administration				
15.605	Sport Fish Restoration Grant	26,676	12-2	D-67
15.916	Outdoor Recreation - Acquisition, Development and Planning	42,477	12-2	D-67
Department of Public Health and Human Services				
93.658	Foster Care Title IV-E	8,956	13-5	D-102
10.567	Food Distribution Programs on Indian Reservations	4,158	13-12	D-117
93.558	Temporary Assistance for Needy Families	3,322	13-17	D-123
93.658	Foster Care Title IV-E	305	13-18	D-124
	TOTAL QUESTIONED COSTS IN THIS SINGLE AUDIT REPORT	$ 218,949		

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Direct resolution of federal issues to:
Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

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Contracted Audits

The Office of Public Instruction (OPI) was audited by a public accounting firm under contract with the Legislative Audit Division for the two fiscal years ended June 30, 1996. OPI receives most of its federal assistance from the U.S. Departments of Agriculture and Education. Federal issues identified and recommendations made by the public accounting firm as a result of these contracted audits are as follows. Reference to "SBAS" in these issues is to Montana's Statewide Budgeting and Accounting System.

Food Distribution Program, CFDA No. 10.550

Condition:
Ending inventory reported on the October 1995 FNS-155 Report for Receipt and Distribution of Donated Commodities did not agree to support documentation.

Criteria:
The FNS-155 report should accurately reflect the data on the support documentation.

Effect:
The ending inventory balances reported to the U. S. Department of Agriculture (USDA) were inaccurate, resulting in inventory being overstated and entitlement being reduced.

Perspective:
Population: Five (5) monthly reports (USDA discontinued reports after November 1995).
Sample Size: Two (2) monthly reports.

Cause:
Unknown

Recommendation #1-1:
We recommend OPI review control procedures for inventory reports submitted to the USDA to ascertain their adequacy in helping to ensure the accuracy of the reports.

Agency Response #1-1:
The FNS-155 report is no longer required.

School Breakfast Program, CFDA No. 10.553

Condition:
The breakfast and milk program actual meals reported on the February 1996 Report for School Food Service did not agree to supporting documentation.

Criteria:
The FNS-10 report should accurately reflect the data on the support documentation.

Effect:
The actual meals reported to the U. S. Department of Agriculture were inaccurate. An amended report reflecting the current actual daily meals was filed once the discrepancy was communicated to OPI.

Perspective:
Population: Twelve (12) monthly reports
Sample Size: Two (2) monthly reports.

Cause:
Error in spreadsheet mistotalled final actual meals.

Recommendation #1-2:
We recommend OPI review control procedures for the FNS-10 report to ascertain their adequacy in helping to ensure the accuracy of the reports.

Agency Response #1-2:
We concur. OPI is currently in the process of designing a system for the electronic submittal and payment of School Food Authorities' (SFA) claims for reimbursement. The new system, developed with federal funds granted to this office from the U.S. Department of Agriculture, will generate the FNS-10 report from original data

input by SFA's and OPI. System edits and reconciliation procedures will be designed to ensure the report is accurate.

SFS Section 4 & 11, CFDA No. 10.555

Condition:
Swan River Correctional Training Camp misinterpreted eligibility guidelines and claimed an incorrect number of meals under the National School Lunch Program.

Criteria:
Only eligible persons should be eligible to participate in the program.

Effect:
Federal funds were being spent on persons ineligible to participate in the program.

Perspective:
Population: All recipient schools.
Sample Size: Five (5) recipient schools.

Cause:
Misunderstanding of eligibility standards at the Swan River Correctional Training Camp and a failure by OPI to apply a "reasonableness test" approach to extreme variations in monthly claims.

Recommendation #1-3:
We recommend OPI apply a reasonableness test approach to large fluctuations in meal counts. We recommend they review the information packet and consider the need for different instructions for non-traditional settings such as the Swan River Correctional Training Camp.

Agency Response #1-3:
We concur. In the Fall of 1996, the OPI School Lunch Division distributed a new School Food Services manual to all School Food Authorities titled *Program Guidance and Financial Management.*

The manual outlines program requirements and provides step by step instructions for completing School Food forms. In addition, the new system being designed for electronic submittal of School Lunch claims for reimbursement will flag large fluctuations in meal counts for further investigation by our office.

Questioned Cost #1-3:
$418

Carl D. Perkins, Vocational Education-Basic Grants to States, Title II A & B, CFDA No. 84.048

Condition:
Administrative costs for Carl Perkins subrecipients were approved and reimbursed in excess of the 5% allowed.

Criteria:
Administrative costs budgeted and approved should be within the 5% allowed.

Effect:
Potential overspending of grant funds in the absence of other costs allowed under the Carl Perkins program.

Perspective:
Population: All recipient schools.
Sample Size: Eight (8) recipient schools, two (2) not in compliance.

Cause:
Unknown.

Recommendation #1-4:
We recommend the amount budgeted and reimbursed to subrecipients for administrative costs be reviewed to ensure they are within the 5% allowed.

Agency Response #1-4:
We concur. Prior to approving subrecipient budgets for Carl Perkins funding, OPI staff will verify that amounts budgeted for administrative costs do not exceed 5% of the total grant award, and

at the end of the grant period, subrecipients' final expenditure reports will be reviewed to verify that actual administrative costs charged to the grant did not exceed 5%.

Carl D. Perkins, Vocational Education Basic Grants to States, Title II A & B, CFDA No. 84.048

Condition:
Indirect costs approved for Carl Perkins subrecipients exceeded rates approved by OPI.

Criteria:
Indirect costs budgeted and approved should equal approved rates.

Effect:
Potential overspending of indirect costs.

Perspective:
Population: Eight (8) schools with budgeted indirect costs in excess of approved rates.
Sample Size: Four (4) recipient schools, one (1) had not modified the budget or submitted a final expenditure report.

Cause:
The review process with regards to the indirect cost rates is not sufficiently defined.

Recommendation #1-5:
We recommend OPI establish review procedures for indirect costs to ensure budgeted costs do not exceed approved rates.

Agency Response #1-5:
We concur. Procedures have been established to ensure the correct rates are used. Prior to approving a subrecipient's budget, OPI staff compare the budgeted indirect cost rate to a list of approved rates. At the end of the grant period, the subrecipient's final expenditure report is also reviewed to verify the indirect cost rate actually applied to direct expenditures did not exceed the subrecipient's approved rate.

Various CFDA #'s

Condition:

OPI did not record actual time, but rather budgeted time, to the general ledger.

Criteria:

The Office of Budget and Management Cost Circular for State and Local Governmental Units (OMB A-87) indicates time should be distributed based on actual time records.

Effect:

Time is not being properly recorded to the various programs.

Perspective:

Population: All employees recorded time for an entire year.
Sample Size: All employees recorded time for the second half of the year.

Cause:

OPI has overlooked the requirement per Circular A-87.

Recommendation #1-6:

We recommend OPI comply with federal regulations by distributing time based on actual time records.

Agency Response #1-6:

We concur. A policy was adopted and implemented effective July 1, 1996 which requires all staff to complete their bi-weekly time sheet by reporting hours worked according to activities actually performed during that pay period. Staff charging time to a Federal grant are expected to have reasonable, creditable evidence to support the charges.

Questioned Cost #1-6:

Based on a comparison of the actual time to the budgeted time recorded for the second half of fiscal year 1996, it appears federal programs were undercharged by approximately $875.

Federal Compliance

The branch received financial assistance of approximately $115,000 from two federal agencies during fiscal year 1995-96. The agencies were the U.S. Departments of Health and Human Services, and Justice (through a subgrant from the Montana Board of Crime Control). The branch did not receive any federal financial assistance in fiscal year 1994-95. We performed tests to determine the branch's compliance with selected federal regulations. We identified the following areas where the branch could improve procedures to comply with federal regulations.

Allowable Match

The branch received $29,000 from the Violence Against Women Formula Grant (CFDA #16.588) during fiscal year 1995-96. The funds were received through a subgrant with the Montana Board of Crime Control (MBCC) which extends into fiscal year 1996-97. The grant agreement with the MBCC states the branch will provide a match of 25 percent of total project budget. The total project budget was $69,195, therefore the branch was to provide $17,298 of match and the grant would provide the remaining $51,897. The match was to be provided by in-kind contributions which include personal service costs, travel costs, and supplies.

Federal regulations require the recipient of financial assistance to ensure that match is identified in a manner which guarantees its accountability. They further require that costs charged to an award be identified as time devoted or materials expended specifically for the purpose of the award. The branch claimed $11,035 of match during fiscal year 1995-96. Of this amount, only $1,508 of travel expenditures was adequately documented. The remaining $9,528 of match related to personal service and supply costs. The dollar amounts were estimates of time spent working on the project and an allocation of budgeted match related to supplies over the grant period. Branch personnel noted records of actual time spent or supplies used on the project were not kept, therefore an estimate was the only method they had to determine match. As a result, we question $9,528 of expenditures claimed as match for the Violence Against Women Formula Grant. The branch should establish procedures related to proper documentation of match to ensure compliance with federal regulations.

Eligibility

The federal government publishes a list of entities and individuals who are not eligible to receive federal financial assistance (referred to by the federal government as debarments and suspensions). Federal regulations require agencies to subcontract federal funds only to eligible entities or individuals and to obtain certification regarding debarment and suspension from the subcontractor.

The branch subcontracts for the work related to the Violence Against Women Formula Grant (CFDA #16.588) and for a portion of the work related to the State Court Improvement Program (CFDA #93.586). The branch did not review the listing for the subcontractors on either of the projects. In addition, the branch did not obtain the required certification from the subcontractors. We reviewed the list of subcontractors and determined they were eligible to participate in the projects.

Branch personnel noted they were not aware of the requirements until we brought them to their attention. The branch should establish procedures to ensure an eligibility check is performed and proper certification from subcontractors is received as part of its’ contracting process.

Recommendation #2-1

We recommend the branch establish procedures to ensure compliance with federal regulations related to matching and eligibility requirements.

Agency Response #2-1

Concur. The audit noted that the Branch used estimates or allocations of personnel time and supply costs to determine in-kind contributions provided as match for a federal grant. The audit also stated that the Branch should have reviewed a federal list of entities and individuals who are not eligible to receive federal financial assistance and that the Branch should have obtained a certification from subcontractors that they were eligible to participate in the projects.

Although Branch personnel believe that the method used to allocate and document personnel time and supply costs provided as in-kind match for the federal grants is adequate, personnel have modified time sheets so that actual time spent on the grants is recorded.

The auditors have already determined that Branch subcontractors are eligible to participate in federal programs. Therefore, Branch personnel will obtain the necessary certification and ensure that an eligibility check is performed on any future federal projects.

Department of Corrections

Juvenile Foster Care

Foster care is the full-time care of youth in residential settings. It provides food, shelter, security and safety, guidance, direction, and treatment to youth who are removed from or are without care and supervision of their parents or guardian. Foster care is funded by the state General Fund and federal assistance programs and is the responsibility of the Department of Public Health and Human Services (DPHHS). The Department of Corrections (department) reimburses DPHHS for foster care costs related to juvenile offenders assigned to the department. The department reimbursed DPHHS for $9.5 million during fiscal year 1995-96. Federal Title IV-A(Family Support Payments to States - Assistance Payments) and Foster Care-Title IV-E programs account for $448,152 and $275,989 of the total, respectively.

The federal Title IV-A, Aid to Families with Dependent Children (AFDC), program provides emergency assistance for the costs of benefits or services provided to families with children which require assistance either in their home or in alternative living arrangements. Eligibility for Title IV-A requires documentation that an emergency exists, the juvenile has lived at home in the last six months, and all other liquid financial resources have been applied to the emergency need. These funds are limited to 364 days or less for situations involving abuse, neglect or delinquency. As of January 1, 1996, these funds are no longer available for benefits or services provided to children in the juvenile justice system.

The federal Title IV-E foster care program provides financial support for foster care services for eligible juveniles. To be eligible for Title IV-E funding, the foster care juvenile must have been removed from the home by means of a judicial determination or a voluntary placement agreement. The judicial determination must be made within six months of the juvenile's removal from the home. The judicial determination must contain a statement that reasonable efforts were made to prevent removal and that the removal is in the best interest of the juvenile. In addition, the juvenile must be eligible for AFDC benefits.

The department used two computer systems for generating foster care payments during the audit period. The client database system was being phased out as the new system was phased in. The new system, Child and Adult Protective Services System (CAPS) is a computer system managed by DPHHS. It tracks foster care services provided on behalf of all juveniles in the system. Probation and parole officers complete initial data entry into CAPS as the juvenile enters foster care. Probation officers are employed by the courts while parole officers are department employees. The officers are responsible for identifying when services began, when services will end, and for what funding source the juvenile is eligible. DPHHS generates payments to providers based on the information in CAPS. The department enters the CAPS information into a lotus spreadsheet used to estimate future costs and track services paid. The department reimburses DPHHS for services provided based on the spreadsheet. The flowchart on page D-16 documents the complexity of the current system.

There is no written agreement between the department and DPHHS detailing areas of responsibility over the accuracy of foster care payments and compliance with federal regulations. This increases the likelihood of errors because there is no clear understanding as to who is responsible for what. The department provided services to 960 juveniles during fiscal year 1995-96. To determine the accuracy of foster care payments, we selected a sample of 26 juveniles from the department's lotus spreadsheet. We reviewed support for the services paid and, where appropriate, we verified eligibility for federal funding. We identified several errors. These include nonpayment of services, overpayment for services, and payments made on behalf of ineligible juveniles. The following list details the circumstances surrounding the identified errors.

-- The client database (used prior to CAPS) shows services for a juvenile ended in April 1996 even though the juvenile was still in foster care in October 1996. The state owes the facility $6,768 for services provided to this juvenile since April 1996.

-- For one juvenile, the department shows a payment is due to the provider. CAPS does not indicate the payment was ever made, but the provider says it has been paid for services. The department has not reimbursed DPHHS for these services.

-- Since the department pays DPHHS based on its lotus spreadsheet, errors made in the input to the lotus spreadsheet affect the amount paid to DPHHS. We identified two input errors that impact the accuracy of the spreadsheet. The department overstated one service by $60 on its spreadsheet. The second error occurred because the department did not subtract foster care credits from the amount owed DPHHS. Foster care credits are the funds collected by DPHHS from the parents of the juveniles in foster care. Since the parents have already paid for the services, the department should not pay for these services. The department overpaid DPHHS $74,660.

-- For one juvenile, payments under Title IV-A continued through April 1996 even though eligibility for all juvenile offenders ended December 31, 1995. This resulted in $7,444 of expenditures incorrectly charged to federal funds.

-- One provider was paid $14.09 per day when the rate should have been $11.09 per day, resulting in an overpayment of $178. Payments to another provider at an incorrect rate resulted in a $5,481 underpayment. When DPHHS attempted to correct this situation with a lump sum payment to the provider, it overpaid by $221.

-- One provider was paid for the first four days of one month from the client database and again from CAPS. This resulted in an overpayment of $57.

-- Two juveniles were still receiving AFDC benefits under their parents' benefits, which made them ineligible for Title IV-E foster care. This resulted in $6,854 of expenditures being incorrectly charged to Title IV-E. When one of these juveniles subsequently became eligible, the funding source was changed to General Fund. The department could have charged an additional $1,009 to Title IV-E foster care.

-- For one juvenile, charged to Title IV-A, we requested the support that showed the juvenile was eligible for Title IV-A. After six weeks, the probation officer had still not provided the requested information. As a result, we were are unable to determine whether this juvenile was eligible for $949 of care charged to Title IV-A.

Based on the errors discussed above, we question $8,393 and $221 of Family Support Payments to States - Assistance Payments (CFDA #93.560) in fiscal year 1995-96 and 1996-97, respectively. We also question $7,031 and $57 of Foster Care-Title IV-E (CFDA #93.658) in fiscal year 1995-96 and 1996-97, respectively.

Title IV-E and Title IV-A funds have both been granted by the federal government to DPHHS. DPHHS provides these funds to the department to cover the foster care payments made on behalf of eligible juveniles.

Due to the complexity of federal regulations and the complicated interactions between the department and DPHHS, the two departments should enter into a written agreement. This agreement should indicate the responsibility of each party and state how compliance with federal regulations will be documented. The department should also work with DPHHS to streamline the foster care payment process. The department could avoid the duplicate data entry and streamline the flow of funds. The following paragraphs outline available options.

One option to prevent duplicate data entry would be to obtain computer software that downloads data from CAPS into a lotus spreadsheet. The department would still have to manipulate the data once it is in the spreadsheet. The software is limited to data already available in existing CAPS reports. The software is available from the Department of Administration's Information Services Division at no cost. Another option includes modifying CAPS to provide the department with the information it needs to make accurate projections and review past activity. This information could be in either a hard copy report or an electronic file. CAPS modifications would cost approximately $7,800 according to DPHHS personnel. Either option eliminates the duplicate data entry currently taking place. This should increase the amount of personnel time available for other priorities identified by management.

As shown in flowchart on page D-16, DPHHS pays for all foster care services, and the department then reimburses DPHHS for its share with General Fund and federal foster care money transferred from DPHHS to the department. The department and DPHHS should explore options to reduce the number of accounting transactions between them and streamline the flow of funds.

The two departments could establish a shared account that would allow DPHHS to record the federal expenditures directly on each department's accounting records. This process would eliminate the transfer of federal money from DPHHS to the department and the subsequent transfer from the department to DPHHS. A minor CAPS modification is necessary to accomplish this.

Another option is a CAPS modification allowing department personnel to control the payment release function for juvenile offenders and, thus, to record payments directly to the department's accounting records. Department personnel would verify the accuracy of payments being made.

According to DPHHS personnel, the modifications to CAPS discussed in the two preceding paragraphs would cost approximately $2,600 - $32,000, depending on the exact nature of the modifications. Either of these options would reduce the number of accounting transactions processed, and would have prevented several of the errors noted above. Flowchart on page D-17 shows the foster care payment process if the options to modify CAPS were adopted.

Since responsibility for juvenile offenders was transferred to the department in July 1995, this is a relatively new process. Corrections personnel indicated they had difficulty identifying the juveniles for which they were responsible. CAPS was also phased in to operation during fiscal year 1995-96, causing additional confusion for officers in the field. Corrections personnel recognize the current process is not the best, but they believe they have done well considering the complicated nature of foster care and the departmental reorganizations.

Recommendation #3-1

We recommend the department:

A. Implement procedures to ensure compliance with federal regulations and the accuracy of foster care payments.

B. Work with the Department of Public Health and Human Services to simplify the process for foster care payments.

Agency Response #3-1:

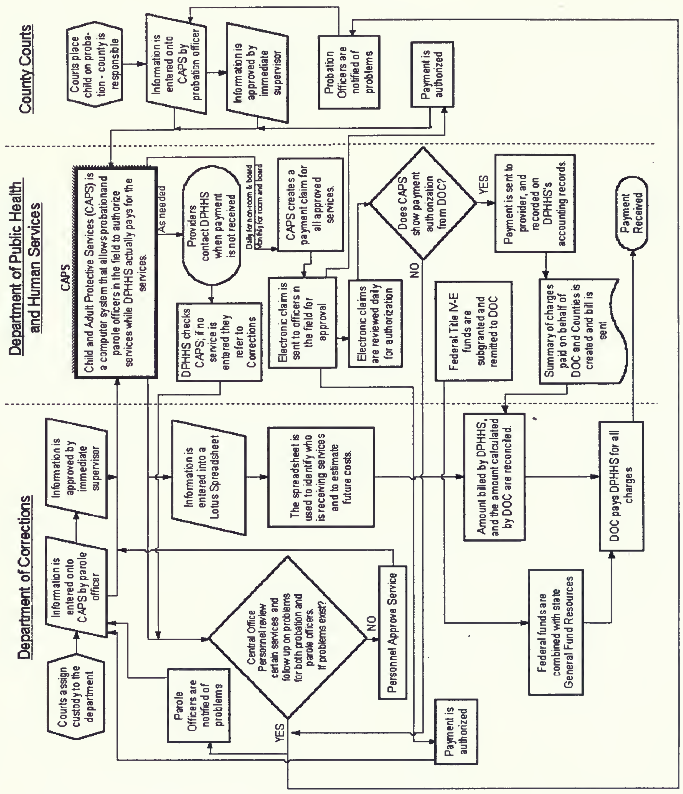
A. Concur. As of December 16, 1996, the department has assigned a 1.00 FTE to ensure federal compliance regarding juvenile placement funds; to reconcile all juvenile placement fund payments made by DPHHS on behalf of the department; and to prepare monthly status reports and year-end projections of these funds. These status reports are distributed monthly to the regional supervisors and to all juvenile parole officers and greatly assists them in managing the amount and length of all juvenile placements made and/or contemplated. The department has also requested in the Executive Budget the addition of 4.00 Financial Specialist FTE to assist in technical compliance functions as well as maximize all possible funding sources associated with juvenile placement.

Additionally, when this department completes the final FY96 reconciliation of juvenile placement fund payments with DPHHS, the federal funds questioned in the audit will be adjusted accordingly.

B. Concur. On February 13, 1997, the Department of Public Health and Human Services and the Department of Corrections formulated a plan to simplify the juvenile placement fund payment process. As a result of this meeting, a modification to CAPS was requested. When implemented, this modification will allow the department to control the payment release function for juvenile offenders and record payments directly to the department's accounting records, thereby greatly simplifying the payment process.

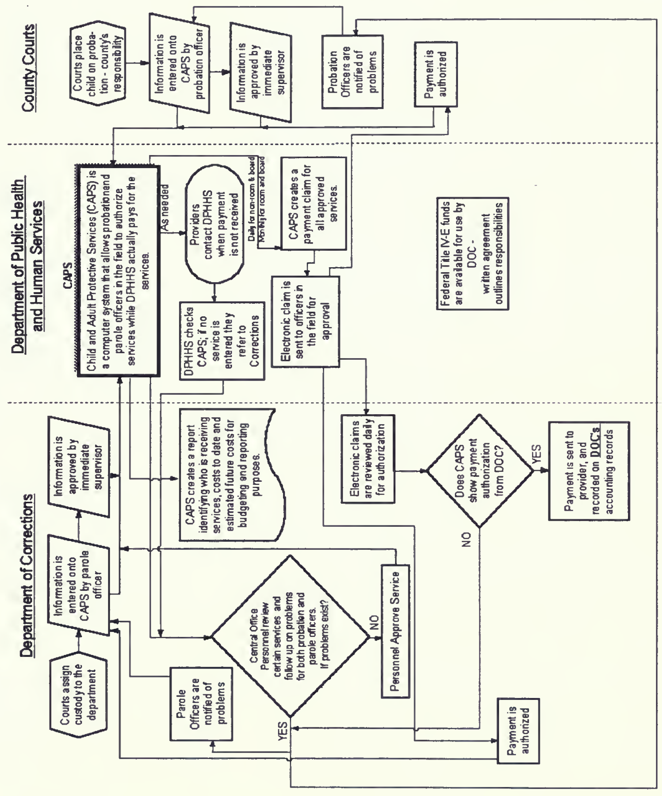
Current Flow of Foster Care Money

(Compiled by the Legislative Audit Division)


County Courts
Courts place child on probation - county is responsible
Information is entered onto CAPS by probation officer
Information is approved by immediate supervisor
Probation Officers are notified of problems
Payment is authorized
Department of Public Health and Human Services
CAPS
Child and Adult Protective Services (CAPS) is a computer system that allows probation and parole officers in the field to authorize services while DPHHS actually pays for the services.
As needed
Providers contact DPHHS when payment is not received
Daily for non-room & board
Monthly for room and board
CAPS creates a payment claim for all approved services.
DPHHS checks CAPS; if no service is entered they refer to Corrections
Electronic claim is sent to officers in the field for approval
Electronic claims are reviewed daily for authorization
Does CAPS show payment authorization from DOC?
YES
NO
Payment is sent to provider, and recorded on DPHHS's accounting records.
Payment Received
Federal Title IV-E funds are subgranted and remitted to DOC
Summary of charges paid on behalf of DOC and Counties is created and bill is sent
Department of Corrections
Information is approved by immediate supervisor
Information is entered onto CAPS by parole officer
Courts assign custody to the department
Information is entered into a Lotus Spreadsheet
The spreadsheet is used to identify who is receiving services and to estimate future costs.
Amount billed by DPHHS, and the amount calculated by DOC are reconciled.
DOC pays DPHHS for all charges
Central Office Personnel review certain services and follow up on problems for both probation and parole officers. If problems exist?
NO
Personnel Approve Service
YES
Parole Officers are notified of problems
Payment is authorized
Federal funds are combined with state General Fund Resources

Possible Flow of Foster Care Money

(Compiled by the Legislative Audit Division)


County Courts
Courts place child on probation - county's responsibility
Information is entered onto CAPS by probation officer
Information is approved by immediate supervisor
Probation Officers are notified of problems
Payment is authorized
Department of Public Health and Human Services
CAPS
Child and Adult Protective Services (CAPS) is a computer system that allows probation and parole officers in the field to authorize services while DPHHS actually pays for the services.
As needed
Providers contact DPHHS when payment is not received
DPHHS checks CAPS; if no service is entered they refer to Corrections
Daily for non-room & board
Monthly for room and board
CAPS creates a payment claim for all approved services.
Electronic claim is sent to officers in the field for approval
Federal Title IV-E funds are available for use by DOC - written agreement outlines responsibilities
Department of Corrections
Courts assign custody to the department
Information is entered onto CAPS by parole officer
Information is approved by immediate supervisor
CAPS creates a report identifying who is receiving services, costs to date and estimated future costs for budgeting and reporting purposes.
Parole Officers are notified of problems
Central Office Personnel review certain services and follow up on problems for both probation and parole officers. If problems exist?
YES
NO
Personnel Approve Service
Electronic claims are reviewed daily for authorization
Does CAPS show payment authorization from DOC?
YES
NO
Payment is sent to provider, and recorded on DOCs accounting records
Payment is authorized

Department of Labor and Industry

Unemployment Insurance Cash Management

The agreement between the state of Montana (State) and U.S. Secretary of the Treasury (Secretary) sets forth the terms and conditions for implementing the requirements of the federal Cash Management Improvement Act of 1990 (CMIA). The agreement took effect on July 1, 1994. Funds withdrawn from the Department of Labor and Industry's Unemployment Insurance Trust Fund (CFDA #17.225) are subject to the requirements of the agreement.

During our previous audit of the department, we noted the department was not using the clearance pattern approved in the agreement for fiscal year 1993-94. In their response to the prior audit recommendation, department personnel noted a new clearance pattern was established and went into effect July 1, 1994.

The current agreement requires the state to transfer funds to the benefit payment account based on the new estimated check clearance pattern calculated by the department. The clearance pattern is an estimate of time it takes after the issuance date for benefit checks to clear the state bank. The agreement notes when the clearance pattern is properly applied, no interest liability is incurred by the State. If the clearance pattern is not properly applied, the State is responsible for calculating the interest liability.

The department calculated a federal interest liability of $5,858 for fiscal year 1994-95. Department personnel noted the primary reason for this was the department based cash draws on the amount of benefit checks issued less reimbursements from other states for combined wage claims. A combined wage claim results when an employee has worked in another state during the period upon which unemployment insurance is based.

The department calculated a state interest liability of $48 for fiscal year 1995-96. During our review of the department's calculation of interest liability we noted errors in the calculation for fiscal years 1994-95 and 1995-96. These errors are as follows:

- -- The calculation compares the amount of cash which should have been drawn to the amount of cash actually drawn. We noted 7 days in which the amount for cash actually drawn was incorrect.
- -- The amount of cash to draw is based on checks issued and the estimated clearance pattern. We noted instances where the amount of checks issued was adjusted subsequent to the cash being drawn and instances where the amount of checks issued was incorrect.
- -- The department rounds the amount of cash draws to the nearest $5,000. Department personnel believed they were to draw in $5,000 increments but could not find where this was required. The only requirement they found was that they were to draw at least $5,000.

Recommendation #4-1
We recommend the department ensure accurate information is used in the calculation of interest liabilities under the state's negotiated federal Cash Management Improvement Act agreement.

Agency Response #4-1:
Concur. The department will insure that the correct amounts are recorded in the worksheet daily. If the department finds it necessary to adjust the "checks issued" total after the incorrect total has been used in the clearance pattern, the department will provide a footnote explaining the reason for the adjustment. In addition, the department will clarify the practice of rounding their cash draws and insure that the proper method of rounding is reflected in the next CMIA agreement.

Trade Adjustment Assistance

The federal Trade Adjustment Act created a program, Trade Adjustment Assistance-Workers (CFDA #17.245), to assist individuals, who became unemployed as a result of increased imports, to return to suitable employment. The program provides for reemployment services and allowances for eligible individuals. The department receives federal moneys to support the program.

The department calculates the amount of weekly Trade Readjustment Allowance (TRA) benefits when the claimant applies for TRA. Claimants apply for a determination of TRA entitlement while they are still collecting unemployment insurance (UI) benefits. When the UI benefits conclude, the TRA payments may begin. We identified one instance where the UI benefits were adjusted between the time of application for TRA and the conclusion of UI benefits, and two instances where the UI calculation was revised after TRA benefits had started. Federal regulations require the TRA benefit be based on the most recent weekly UI benefit amount. Although the payment errors were not significant, the department should establish a system to correctly calculate TRA benefits.

We also noted an instance where a TRA claimant collected Student Financial Aid. The claimant's TRA benefits were not reduced by the amount of Student Financial Aid as required by federal regulation. The claimant was overpaid by approximately $625. Department personnel had notified the claimant that the benefits would be reduced, but the information was never updated on the database, so the benefits were not reduced accordingly. Based on this and the errors discussed above, we question $661 of TRA federal assistance during fiscal year 1995-96.

After we brought the situation to the attention of department personnel, they implemented changes in the TRA process. Once a quarter, department personnel review UI benefits to ensure changes have not been made to the UI calculation. Also, prior to TRA payments, personnel verify the final UI benefit payment to ensure the amount of TRA benefits that will be paid is correct. These procedures should reduce the errors.

Recommendation #4-2

We recommend the department calculate Trade Readjustment Allowance in accordance with federal regulations.

Agency Response #4-2:

Concur. As the audit report indicates, we have made changes in the processes that we expect will reduce errors. In addition, if we are able to rewrite the unemployment insurance benefits system as proposed, we will include the Trade Readjustment Act processing in that system.

The University of Montana

Financial Aid

The U of M - Tech campus receives federal funds for the following student financial aid programs: Pell Grants (CFDA #84.063); Perkins Loans (CFDA # 84.038); Federal Work Study (CFDA #84.033); Supplemental Educational Opportunity Grants (CFDA #84.007); and State Student Incentive Grants (CFDA #84.069). U of M - Tech's students may also qualify for Federal Family Education Loans (CFDA #84.032). During our audit of U of M - Tech's student financial aid programs, we identified issues related to the timing of federal cash draw downs for Pell Grants, the timing of U of M - Tech's contributions for the Perkins Loans program, and calculating the cost of attendance used as a basis for awarding aid from the various financial aid programs to students. These issues are discussed below.

Early Federal Pell Grant Cash Requests

To minimize interest costs to the federal government, federal regulations require schools to credit aid to a student's account no more than ten days before the first day of a semester if the credit is made with federal funds. U of M - Tech obtained $266,000 in federal Pell funds on December 27, 1995, for the semester starting January 9, 1996. U of M - Tech credited student accounts for all financial aid programs, including Pell, on December 28, 1995. It should not have drawn down federal funds to credit student accounts before December 30, 1995.

Business Office personnel were aware there were federal requirements related to the timing of federal draw downs and crediting student accounts, but thought the limit was 13 days and based their procedures on that limit. According to financial aid regulations available in the Financial Aid Office, the 10 day limit was effective beginning with the 1995-96 award year. U of M - Tech should establish procedures to ensure the Business Office is notified of changes in federal regulations related to financial aid disbursements.

Recommendation #5-1

We recommend The University of Montana revise procedures at U of M - Tech to ensure financial aid federal funds draw downs and disbursements are made no more than ten days before the first day of the semester.

Agency Response #5-1:
Concur. Effective August 1996, UM-Tech personnel revised procedures to ensure compliance with financial aid draw down regulations.

Untimely State Match Funds

Federal regulations require an institution to deposit its state matching funds into its Perkins Loan fund prior to or at the same time it deposits any federal contribution. U of M - Tech obtained federal funds up to 23 days before making the related state matching funds contributions during the audit period.

U of M - Tech personnel were not aware there was a timing requirement related to matching contributions for the Perkins Loans program. They obtain the state matching funds from the Office of the Commissioner of Higher Education (CHE). Personnel indicated they would have to coordinate with CHE to deposit the matching contribution more quickly, request the federal capital contribution later, or both.

Recommendation #5-2
We recommend The University of Montana work with the Office of the Commissioner of Higher Education to ensure state matching funds are deposited to the Perkins Loan program at the U of M - Tech campus in accordance with federal regulations.

Agency Response #5-2:
Concur. Effective Fall semester 1997, personnel at UM-Tech will implement procedures to ensure depositing of state matching funds in correlation with the request of federal Perkins Loan funds.

Cost of Attendance

U of M - Tech's financial aid office develops cost of attendance amounts to estimate a student's educational expenses for the academic year based on the student's enrollment and personal status. The cost of attendance includes tuition and fees, loan fees, room and board, books and supplies, transportation, and personal expenses.

Each student's expected family contribution (income and assets of student and parents), scholarships, and other known resources are subtracted from the applicable cost of attendance to determine the student's financial need. Except for Pell Grants, financial aid is awarded based on each student's financial need and the award cannot exceed financial need.

To ensure financial aid is awarded to students in compliance with federal regulations, it is important for cost of attendance amounts to be based on appropriately estimated costs.

We found the cost of attendance amounts at U of M - Tech related to tuition and fees and loan origination fees were reasonable. However, the living expenses (room and board, transportation, and miscellaneous personal expenses) and books and materials amounts for the 1995-96 academic year for full-time undergraduate resident students were not supported. The financial aid director has little formal documentation supporting how he determined these cost of education amounts, and has generally arrived at the amounts by increasing the prior year's cost of education for an estimated inflationary factor.

Recommendation #5-3
We recommend The University of Montana base the U of M - Tech cost of attendance amounts on documented costs of education in compliance with federal regulations.

Agency Response #5-3:
Concur. UM-Tech personnel will document the process they utilize to calculate the cost of attendance. Effective the 1997-98 academic year, the UM-Tech Financial Aid Office will maintain all appropriate documentation.

Compliance with the Student Right-To-Know and Campus Security Act

Not all of the university campuses have established a system ensuring crimes occurring on campuses are reported in accordance with the federal Student Right-To-Know and Campus Security Act of 1990. A purpose of the Student Right-To-Know and Campus Security Act of 1990 is to provide students, prospective students, and parents of students access to information about an institutions crime statistics and security policies and procedures.

Based on documentation provided to us by the university's internal audit office and interviews with campus officials we determined not all reported alleged crimes occurring on campuses were included in published crime statistics as required by the federal law. The university's internal audit office reviewed policies on each of the campuses and reported campuses have not always established the appropriate policies to ensure compliance with the federal law.

Recommendation #5-4

We recommend The University of Montana establish procedures to ensure compliance with the federal Student Right-To-Know and Campus Security Act.

Agency Response #5-4:

Concur. Internal Audit personnel will conduct further review and follow-up on all The University of Montana campuses to ensure the development and implementation of appropriate procedures ensuring compliance with the Student Right to Know and Campus Security Act regulations. Campus personnel will develop and start procedures by September 1997.

Department of Environmental Quality

Subrecipient Monitoring

The department receives some federal grant funds which it subgrants to other entities. Under federal regulations, the department is responsible for ensuring subrecipients comply with federal requirements and for resolving findings and questioned costs related to the funds it subgrants. Without adequate monitoring of grant contracts, the department lacks assurance subrecipients comply with federal regulations and risks the loss of future federal funding.

In a past audit of the Department of Health and Environmental Sciences, we noted weaknesses in procedures governing monitoring of grant subrecipients. Although the department now has administrative responsibility for many of the same grants, it has not clarified subrecipient monitoring procedures or enhanced its contract database to list all subrecipients required to have audits under federal regulations. Department personnel said reorganization delayed improvement of subrecipient monitoring procedures.

Recommendation #6-1
We recommend the department implement procedures to ensure monitoring of grant subrecipients as required by federal regulations.

Agency Response #6-1:
Concur. The department will develop and implement procedures to ensure subrecipient monitoring of grant subrecipients is conducted as required by federal regulations applicable to grants made by the department.

Cash Management

The council receives federal assistance, (CFDA #s 45.003, 45.007, 45.011, 45.015, and 45.023), from the National Endowment for the Arts (NEA) for promotion and enhancement of the arts in Montana. Council staff are responsible for the oversight of the federal awards, monitoring expenditure levels, and requesting cash when needed from the NEA. Staff indicated it may take a week for funds to become available once they have requested them.

General requirements for federal assistance under the Single Audit Act provide guidance under cash management which state in part ". . . cash should be drawn only in amounts necessary to meet immediate needs or to cover program disbursements already made." During our audit, we found that the council did not follow acceptable cash management procedures in accordance with federal guidelines.

We reviewed an 18 month period overlapping fiscal years 1995-96 and 1996-97 and found there were cash balances in three federal accounts that greatly exceeded expenditures. In some instances, excess cash was in the accounts which would have allowed operations to continue without cash draws for periods from three to nine months. We determined the average month end cash balances, approximate average monthly expenditures, and calculated an estimate of the interest earned on the excess cash as presented in the following table.

Montana Arts Council
Schedule of Average Cash Balances
Expenditures, and Interest Earned

Account	Average Cash Balance	Average Expenditures	Interest Earned *
Basic State Grant	$79,598	$27,695	$ 6,352
Art in Education	30,633	3,891	2,316
Miscellaneous Grants	68,773	14,913	5,199
Estimated Total Interest Earned			$13,867*

* Computed using an annual interest factor of 5.04 percent which is the State Treasurer's Fund Yield for fiscal year 1996 as determined by the State Board of Investments.

Source: Compiled by the Legislative Audit Division from SBAS.

The council's Executive Director said they drew large amounts of federal cash in fiscal year 1996 because they were concerned about the backlog of requests due to federal government shutdowns and winter storms. In addition, the director was concerned about threats that were made in Congress to eliminate all funding for the NEA immediately. The council accountant said increased work loads, staff reductions, and demands of the 1997 legislative session contributed to the lack of monitoring cash balances in fiscal years 1995-96 and 1996-97. Based on our review of the timing and amounts of federal cash requested, there was inadequate monitoring of federal cash balances by the council. The council is not in compliance with federal cash management regulations which could affect the council's eligibility for a letter of credit cash draw or impact future funding levels.

Recommendation #7-1

We recommend the council adopt and follow procedures to monitor cash balances and draw federal cash based on need, in compliance with federal guidelines.

Agency Response #7-1:

Concur. Procedures will be implemented at once to monitor federal cash balances on a weekly basis and draw federal cash based on need, in compliance with federal guidelines.

Time and Effort Reporting

Office of Management and Budget (OMB) Circular A-87 defines allowable costs and cost principles with respect to entities receiving federal awards. Under these guidelines the council is required to maintain sufficient documentation to support personal services charges to federal programs. In fiscal years 1995-96 and 1996-97, we found the council did not maintain sufficient documentation of personal services charges to its federal Promotion of the Arts-Arts in Education (CFDA # 45.003) and Promotion of the Arts - State and Regional Programs (CFDA # 45.007) grants.

The council's personal services by fiscal year and by fund type are noted below:

Fund Type	Fiscal Year 1995-96	Fiscal Year 1996-97
General Fund	$ 60,479	$ 51,474
State Special Revenue Fund	116,576	72,070
Federal Special Revenue Fund	165,833	54,674
Total	$342,888	$178,218

The council's executive director stated that all activity is in support of the federal awards under "Promotion of the Arts" and while separate time and effort reporting was not done in the past, they did use time sheets to record total hours worked. Beginning in fiscal year 1997-98, council staff began documenting time spent in support of individual activities.

Since General Fund and state Special Revenue Fund moneys are used as match against the federal awards it seems reasonable that activity charged in the General Fund and state Special Revenue Fund are in support of the federal grants "Promotion of the Arts" activity, however, during the audit period, the council did not have documentation to demonstrate compliance with federal regulations.

Recommendation #7-2
We recommend the council adopt procedures to document personnel activity levels as required by federal regulations.

Agency Response #7-2:
Concur. We have begun to utilize a function-specific time sheet developed with and reviewed by the legislative auditors to document staff time. We will be modifying the existing form to include allocation of time to specific federal grants.

Federal Compliance Issues

The office received funding from the U.S. Department of Education and the U.S. Department of Labor. During our audit we noted four areas where the office could enhance compliance with federal laws and regulations. These issues are discussed in the following sections.

Internal Controls Over Telephone Calling Cards

It is management's responsibility to establish and maintain an adequate internal control structure for the office, including internal control systems used in administering federal financial assistance programs. The office receives federal assistance from the Department of Education for the TRIO-Talent Search program (CFDA #84.044A). This program is designed to identify disadvantaged youths with potential for post secondary education and to encourage them to attend post-secondary schools.

This program has several employees stationed throughout the state. To accommodate the employees' need to make long distance telephone calls, the office issues telephone calling cards to these employees. In our 1991 audit report we had identified instances where an employee had made long distance calls for personal business. The office implemented procedures to help detect improper calls by having employees fill out telephone logs and turn them into the main office each month for review. In 1996, the office identified two employees that were improperly using their telephone calling cards. These cases totaling approximately $3,700 of improper calls were referred to our office and the Attorney General's Office for investigation as required by section 5-13-309, MCA.

At the end of 1996, the office had identified an additional instance where a student who was participating in the Talent Search Program obtained an employee's telephone calling card number and used it without permission. The office did not detect this inappropriate use in a timely manner because the employee with the telephone calling card was not completing and submitting telephone logs. This student charged $830 worth of inappropriate calls.

Although the office has controls in place to identify improper calling card usage, it is important that they stress the importance of these controls to employees. If employees do not follow the established controls, disciplinary action should be taken. Since the office properly reduced the costs charged to the federal grant, there are no federal questioned costs.

Recommendation #8-1
We recommend the office continue to improve internal controls over telephone calling cards.

Agency Response #8-1:
Concur. The Office of the Commissioner of Higher Education sends a memo with each calling card issued which identifies the state policies and office policies related to telephone calling cards. Fiscal staff review phone records and notify supervisors when the appearance of inappropriate calls exists. Each supervisor is furnished copies of the phone records for their program on a monthly basis. Finally, the OCHE believes that it is the responsibility of each supervisor and ultimately, the Commissioner, to ensure that personnel follow policies and act in an ethical manner.

Federal Cash Management

The Cash Management Improvement Act (CMIA) requires the U. S. Secretary of Treasury to enter into agreements with states to establish terms and conditions for cash management for certain federal grants programs. The office participates in one grant to which the CMIA agreement applies. This grant is the Vocational Education - Basic Grants to States (CFDA #84.048A), formerly known as the Carl Perkins grant. Under the agreement, the office must request funds based upon two patterns of expenditures. The office requests cash from the U.S. Treasury on an average clearance pattern for the payment of benefit expenses. The benefit expenses occur when the office makes payments for grant projects to the Office of Public Instruction (OPI), university units, or community - based organizations. The second method requests cash to recover direct administrative costs and should be requested every two weeks to coincide with the biweekly payroll. By requesting the funds in funds in accordance with the established clearance pattern, the office can ensure federal cash is appropriately managed.

We reviewed the office's procedures for requesting and expending federal funds for the Vocational Education - Basic Grants to States to determine if the cash requests were being made in accordance with the CMIA agreement. We determined office personnel did not follow the agreement. Using the average clearance pattern, personnel should have drawn down the exact amount of the benefit payments to arrive six days after disbursement of the grant benefit. At times personnel requested the funds before the disbursement occurred and the amount of draw did not equal the disbursement amount. Also a review of the draws requested for direct administrative costs revealed the draws did not coincide with the paydays of the payroll cycle.

The CMIA agreement between the state and U.S. Treasury indicates the draw pattern that should be followed for each major federal financial assistance program within the state, including the Vocational Education Funds. Federal regulations indicate a state will incur interest liability to the federal government if federal funds are in a state account prior to the day the state pays out the funds for program purposes. Under the state's CMIA agreement it is the Department of Administration's (D of A) responsibility to calculate the interest payment for the assistance programs falling under the provisions of CMIA. In fiscal year 1995-96, the state had to return $2,420 of interest related to the Vocational Education - Basic State Grant for failure to follow established clearance patterns.

According to office personnel, the clearance patterns outlined in the CMIA were not always followed for a number of reasons. Personnel believed the time spent tracking expenditures for a draw request was not cost beneficial for the amount of money involved. Requests for cash would have been made approximately 90 times for university and community-based grants, 26 times for direct administration expenses and 11 times for funds transferred to OPI in fiscal year 1995-96. Personnel believed they would need an additional employee to track expenditures and request draws if the agreement as written was followed. Also, personnel indicated the average clearance pattern does not make sense for funds transferred between the office and other state agencies such as OPI and the university units since no state warrants are written in these circumstances.

Office personnel should work with D of A Accounting Bureau personnel to modify the Vocational Education cash request schedule if they do not believe the current methods are reasonable. Otherwise, they should develop procedures to monitor disbursements of funds and ensure the requests of funds are being made in compliance with the CMIA agreement.

Recommendation #8-2
We recommend the office:

A. Follow the terms and conditions of the cash management improvement act agreement for cash requests related to the Vocational Educational - Basic Grants to States program.

B. Work with the Department of Administration to modify the cash draw techniques if the current schedules are not appropriate.

Agency Response #8-2:
Concur. The office has reviewed its cash management process related to the Carl Perkins Grant and will do further analysis to ensure that it meets the terms and conditions of the Cash Management Improvement Act. We will implement procedures to improve the timing and streamlining of disbursements to subgrantees.

Federal Reporting

Office personnel did not correctly complete annual federal reports for the federal year ended September 30, 1996 for the Vocational Education - Basic Grants to States (CFDA #84.048A). The reports did not properly reflect the spending of the Vocational Education funds within the allocations required by federal law (P.L.101-392 Sec 102). The law requires that certain percentages of the allocation be used for specific purposes. For example a specified percentage must be used for single parents, single pregnant women, displaced homemakers, (SP/SPW/DH), a specified percent must be used for gender equity and a specified percent be used for programs for criminal offenders.

Two federal reports were filed for the year ended September 30, 1996. The table below shows the reporting errors for certain categories within the grant.

Federal Reporting Errors

Perkins Part B Funds Report/Category	Reported Amount	Correct Amount	Difference
Carryover Report			
(Funding Period 7-94 to 9-95)			
Criminal Offender	$ 14,675	$ 44,293	$(29,618)
SP/SPW/DH	333,617	333,190	427
Gender Equity	184,218	155,027	29,191
Total	$532,510	$532,510	$ 0
Current Year Report			
(Funding Period 7-95 to 9-96)			
Criminal Offender	$ 65,786	$ 36,168	$ 29,618
SP/SPW/DH	305,095	305,522	(427)
Gender Equity	119,152	148,343	(29,191)
Total	$490,033	$490,033	$ 0

Source: Prepared by the Legislative Audit Division from agency records.

Even though an error occurred in completing the federal reports, the office correctly spent the money within each of the grant allocation categories and the state's accounting records reflect the proper spending among the allocations. To ensure the federal government does not initiate penalties for noncompliance with federal regulations, it is important the office file amended reports.

The person preparing the report attributed the error to the fact this was the first time they had completed this federal report. Personnel also indicated they would submit amended reports to correct the errors. In order to avoid reporting errors in the future the office should establish procedures to verify the spending reported within the allocations is properly reported.

Recommendation #8-3
We recommend the office:

A. Establish procedures to ensure the spending within the allocation of the Vocational Education - Basic Grants to States is properly reported.

B. File amended reports to correct the inaccurate reporting for the federal fiscal year ended September 30, 1996.

Agency Response #8-3:
Concur. The office will file amended reports when the annual Financial Status Report for State Administered Vocational Education Programs is submitted, by December 31, 1997.

Accounting for Leave on a Time and Effort Basis

The office uses an after-the-fact time and effort reporting system to ensure the personal service expenditures are properly allocated among the various federal grants. Personal service costs are initially charged to federal grants on a budget basis. Each quarter, office personnel adjust the state's accounting records to reflect the actual hours spent on various federal grants. However the adjustments do not include costs associated with holidays, annual leave and sick leave. These costs remain on the accounting records on the budget basis.

Office personnel prepared a spreadsheet to document the significance of this problem. Based on the office documentation, the Vocational Education - Basic Grants to States (CFDA #84.048A) was overcharged $2,751 and Employment Services and Job Training - Pilot and Demonstration Programs (CFDA #17.249) being undercharged $3,536 during fiscal year 1996-97. The General Fund was overcharged $856 and the Federal Family Education Loan Program (CFDA #84.032) was undercharged $71 during the same period. As a result we question $2,751 in costs of Basic Grants to States for fiscal year 1996-97. The net effect to all federal programs is an undercharge of $856.

Federal regulations require the office to properly account for all activity for which employees are compensated. This activity includes the costs of holidays, annual leave and sick leave. The after-the-fact allocation should split leave time in the same proportion as direct time.

Recommendation #8-4

We recommend the office allocate all personal service activity on an after the fact time and effort basis in accordance with federal regulations.

Agency Response #8-4:

Concur. The office has developed a procedure that allocates costs associated with holidays, annual leave, and sick leave in the same proportion as actual time worked in federal programs during a pay period.

Montana Department of Transportation

Monitoring State and Federal Funds Provided to Subrecipients

The department subgrants some state and federal funds to other entities. Federal regulations require the department monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. The department is also required to review the results of audits of subrecipients as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings. Although these regulations pertain to federal awards, the department should also monitor for compliance requirements related to state funds subgranted. During our audit we noted concerns related to the department's monitoring of state and federal funds provided to subrecipients.

The Department of Commerce Local Government Services Bureau (LGS), ensures local governments receive required audits. LGS personnel review audit reports completed by private audit firms for documentation indicating the local government is in compliance with state and federal laws and regulations. LGS notifies state agencies of instances of noncompliance. The state agency can use this information to determine if those issues require additional follow up. We noted LGS sent letters to the department regarding compliance issues related to state fuel tax allocations and federal awards. We were unable to determine who in the department received or followed up on some of the letters. We reviewed letters LGS sent to the department from December 1993 through July 1997 covering audits with periods ending June 30, 1992 through June 30, 1996 and noted the following issues.

Monitoring Compliance with State Law

Section 15-70-101, MCA, allocates $16,766,000 of fuel tax revenue each fiscal year to eligible local governments and restricts the use of these funds to construction, reconstruction, maintenance, and repair of roads and streets. There were seven issues in the local government audit reports related to the use of fuel tax allocation regarding:

1. One county charged architectural fees on a building to its fuel tax fund. The charge was adjusted out of this fund into the general fund of the county as a result of the county audit.

2. One county did not separately identify the fuel tax funds from other county funds.

3. Section 15-70-101(3), MCA, states no more than 25 percent of fuel tax revenues can be used for capital outlay. One county's capital outlay expenditures were 49 percent of fuel tax revenues.

4. Four counties did not obtain bids for repair projects in accordance with state law. Section 15-70-101 (4), MCA, requires all fuel tax allocated to local governments must be disbursed to lowest responsible bidder according to applicable bidding procedures when contracts for construction, reconstruction, maintenance, or repair are in excess of $4,000. City and county officials stated they were not aware of the bid requirement to seek bids for projects over $4,000 or stated they followed other state law limits.

State and federal laws make it unlawful for state fuel tax funds committed to transportation projects to be used for other purposes. The department has an obligation to monitor the use of the fuel tax funds allocated to local governments because diversions or improper uses of the allocated funds could jeopardize federal highway funds.

Accountability for Monitoring Federal Funds Subgranted

During our fieldwork, the department was unable to provide us with a list of federal funds it subgranted during the audit period, the employees responsible for monitoring the subgrants, and evidence the department received and reviewed required audit or monitoring reports. We reviewed LGS letters to the department and noted federal issues related to funds received from U.S. Department of Transportation related to Highway Planning and Construction - Community Transportation Enhancement (CFDA #20.205) and State and Community Highway Safety (CFDA #20.600) Programs. When we contacted department officials who received the LGS letters to determine what follow up was conducted, we were told they received the findings and resolved any issues outstanding but did not document the review. We found evidence the department monitors some federal awards to subrecipients through site visits and various other means. Without a system to monitor all subgrants, the department lacks assurance the funds were spent in accordance with the terms of the contract and the subrecipients complied with federal regulations.

We reviewed a number of contracts subgranting funds to other entities and noted the department did not provide the amount of state and federal funds, the federal catalog name, or the catalog of federal domestic assistance (CFDA) number to the subrecipient. The subrecipient needs this information in order to comply with federal reporting requirements. In addition, we noted the department does not inform the subrecipient that if they receive $300,000 or more in federal awards they are required to have a single audit or program specific audit completed in accordance with federal regulations.

Summary

The department needs to establish a system outlining to whom state and federal funds are subgranted, the amount, and the department employee responsible for ensuring compliance with state and federal laws and regulations related to the subgrants. Without adequate control procedures, the potential exists for noncompliance issues to go unresolved. The department should also ensure the department employee assigned to monitor the subgrant receives and reviews required audit reports or LGS letters and documents the resolution of any issues relating to state or federal funds subgranted.

Recommendation #9-1
We recommend the department develop and implement procedures to:

A. Monitor all state and federal funds subgranted to ensure they are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements.

B. Inform subrecipients of audit requirements for entities receiving federal awards.

C. Ensure subrecipients are provided with the amount of state and federal funds, federal program name, and catalog of federal domestic assistance number to facilitate compliance with federal regulations.

Agency Response #9-1:
Concur. The Accounting Services Bureau and Transportation Planning Division began a series of meetings on November 17 to

address these issues. The department will review its current procedures regarding subgrants of federal monies and develop policies and procedures to monitor the programs; inform subrecipients of audit requirements; and provide the amount of state and federal funds, federal program name, and catalog of federal domestic assistance number.

Local Government Services (LGS) notifies the department of instances of noncompliance regarding fuel tax allocations as reported by audits of local governments. The audit report indicates the department can use this information to determine if those issues require additional follow up. The department does not have any type of authority to enforce compliance by local governments. Therefore, we rely on the audits conducted thru LGS to ensure compliance. In all cases cited in the report by the LAD regarding noncompliance by local governments, the recommendations were implemented. Also, the department informs the local governments that we do not regulate MCA 15-70-101, and do not attempt to interpret the law on behalf of the cities and counties. Enforcement is through these LGS audits and if there are any questions they should consult with the city or county attorney for clarification or interpretation.

The department will work with LGS and determine what additional monitoring procedures are warranted regarding noncompliance. Also, the department will initiate an internal review process regarding the noncompliance issues.

Internal Service Fund-Equipment Rental Rates

We reviewed the rental rates established by the department's equipment program for fiscal years 1995-96 and 1996-97. We noted areas where the department could improve procedures for documenting and supporting the rate calculations.

Included in the equipment program's rate calculation is a provision for increased costs of replacement equipment. Federal regulations do not allow for equipment replacement provisions when calculating rental charges. In addition, section 17-8-101(6), MCA, requires fees to be commensurate with costs. Equipment costs should be recovered through depreciation and funds for increased costs of new purchases should come from resources other than user rate charges. A portion of the costs for equipment was charged to the U.S. Department of Transportation, Highway Planning and Construction Grant (CFDA #20.205). Because replacement costs are not allowed, we question costs of $44,668 and $58,971 in fiscal years 1995-96 and 1996-97, respectively.

Department personnel have developed written procedures for determining the rental rates. In some instances amounts used in rate calculations were supposed to be from the Statewide Budgeting and Accounting System (SBAS), but we could not verify these amounts to SBAS. In addition, we noted errors in calculating the profit or losses in the previous year used in calculating the rental rate for the next year. We also noted that department personnel appropriately calculated estimated depreciation and estimated assigned hours for use in the rate calculation; however, in some cases they did not use the calculated number when determining the rental rate.

Department personnel stated they sometimes used estimates rather than the SBAS amounts required in the written procedures to achieve more accurate rate calculations. Department personnel did not document the source of information or maintain support for amounts used. In addition, mistakes were made in calculations or when entering the calculated amounts in the rental rate formulas. The errors in the above paragraph were insignificant and would not have resulted in material adjustments to the rental rates; however, the potential exists for errors, if significant, to result in excessive profits or losses in the program.

Recommendation #9-2

We recommend the department revise and implement written procedures for equipment program rate calculations in the Internal Service Fund and maintain documentation which supports the rate calculations.

Agency Response #9-2:

Concur. The Accounting Services Bureau and Equipment Bureau are revising the rate structure and procedures for compliance with federal and state requirements and to insure proper charges to the department and construction program when reimbursed through Federal Highway Administration (FHWA). These rates and procedures will be reviewed for propriety and documented. Also, through negotiation with FHWA, the questioned costs will be reimbursed through a rate adjustment when the construction program is charged in future years.

Federal Cash Management

The state of Montana has an agreement with the U.S. Secretary of the Treasury which sets forth the terms and conditions agreed to by the state of Montana and the federal government to implement the federal Cash Management Improvement Act of 1990 (CMIA). The agreement establishes a federal cash request schedule based on warrant clearing patterns for large federal assistance programs in the state of Montana. Included under the CMIA agreement is the U.S. Department of Transportation, Highway Planning and Construction Grant (CFDA #20.205), from which the department receives most of its federal funding.

We reviewed the department's procedures for requesting federal funds in accordance with the CMIA agreement and noted the department does not provide Department of Administration with the date federal funds are actually received. Department personnel stated they use an estimated date from the department's billing system report as the reception date of federal funds. This date is a computer generated estimate based on the assumption that federal funds will be received one day after the request date. Due to timing and day of the request the reception date could vary. The actual date of receipt of federal funds can be obtained from the department's Accounting Services Bureau.

The Department of Administration is required to complete the annual interest calculation report for the state of Montana. This includes ensuring the department did not draw federal funds too early or federal funds were not received late. Discrepancies in timing of cash requests or disbursements may result in either interest due to or due from the federal government. If inaccurate information is furnished, the Department of Administration is unable to properly determine compliance with the CMIA agreement. This concern could be eliminated by providing the actual date federal funds were received to the Department of Administration.

Recommendation #9-3
We recommend the department report the actual date of receipt of federal funds to the Department of Administration.

Agency Response #9-3:
Concur. The department will provide a corrected Fiscal Year End 1997 report based on actual days. We changed our report format to reflect the actual day of receipt rather than estimated.

Department of Public Health and Human Services Child and Adult Protective Services System

Introduction

This is an audit of the Child and Adult Protective Services System (CAPS) at the Department of Public Health and Human Services (DPHHS). We reviewed data controls over input, processing, and output in addition to general controls within the mainframe processing environment. This audit provides assistance to the Legislative Audit Division's financial-compliance audit staff in their biennial audit of the DPHHS.

System Background

CAPS is an information system designed to support the social services programs administered by the department's Child & Family Services Division. CAPS processes information for child and adult protective services, services to the aged, and services to juvenile corrections. CAPS was developed under contract in order to meet federal requirements for a Statewide Automated Child Welfare Information System and the Adoption and Foster Care Analysis and Reporting System. In addition, the department requires automated access to workload/caseload management information and statistics. CAPS is designed to increase productivity, improve staffing utilization, reduce manual functions and processes, and improve case management by employees responsible for child welfare services and adoption and foster care activities.

Electronic Access Controls

The audit sampled user access privileges for 54 of over 900 individuals with access to CAPS. Users include employees within the department, the Department of Corrections, and youth courts.

Access Assignment Procedures

The department grants access to CAPS in two stages performed by different department employees who coordinate the overall process. The security officer assigns access to the CAPS main menu through ACF2 security software. Next, a CAPS employee grants specific privileges through CAPS security software and, depending on authorization given, a user may view or process transactions online.

The audit concluded department procedures for assigning access to the CAPS main menu are effective and supported by properly authorized request forms. However, the request forms remain filed with the security officer and do not specifically support actual privileges granted to the CAPS system beyond the main menu. Existing procedures can allow users to have CAPS access although it may no longer be needed.

- Three of the fifty-four employees no longer needed access granted due to change in job function. Unnecessary access could allow the employees to approve payment transactions, or view and change information in client files not assigned to the employees.
- Two other system users do not require the access granted under the existing security classifications. These employees could enter clients and approve services paid on their behalf, although such access is necessary only on limited occasions.

Industry guidelines suggest management restrict access to application data based on user job duties. Existing department procedures facilitate prompt access assignment upon initial user request. However, subsequent changes to access privileges were either not requested upon change in user job duties or not completed at the time of our review. Given the large number of CAPS users, the department should either consolidate the access security assignment process or establish procedures to periodically review and adjust access according to job duties.

Recommendation #10-1
We recommend the department restrict user access to CAPS according to job duties.

Agency Response #10-1:
Concur. The department will review the current CAPS security plan to ensure user access is granted according to job duties. It is anticipated that this review will be completed by January 1998. To ensure that access continues to accurately reflect job assignments, the department's position control report will be reviewed bi-weekly for staff changes. Access for non-agency users is reviewed every six months.

Programmer Access to Production Programs and Data

The audit reviewed ACF2 security controls over CAPS production programs and data. The department controls access to CAPS database programs through security rules which allow or disallow user access. Production data sets include programs which produce reports through batch processes, or electronic files of client transactions stored online. All programmers assigned to the CAPS development project have unlogged write access to production programs and data.

Industry standards suggest management limit access to production programs and data to individuals who need it to perform their jobs. Once development is complete and database programs and files are recorded in the production environment, programming staff do not require write access. Unlogged write access allows programmers to make unauthorized changes to database transaction files and programs. For example, programmers could view or change confidential child custody, adoption, foster care, adult protective services or other data included in the CAPS system.

Recommendation #10-2
We recommend the department restrict access to CAPS production programs and data according to programmer job functions.

Agency Response #10-2:
Concur. Access to production files should be restricted to only those individuals requiring access to perform their jobs. Currently, BDM utilizes a single user number that is only activated between the hours of 5:00 a.m. to 7:00 a.m. and 12:00 p.m. to 1:00 p.m. to restrict changing of the information in the database. Programmers must obtain the password for this user number and log the reason for its use in a notebook. Access to production (daily or monthly transaction files) for data changes is restricted to this same user number.

Child and Adult Protective Services System

Application Controls Introduction

CAPS is an online statewide child and adult welfare management system that supports protective services, foster care and adoption, services to the aged, and services to juvenile corrections. CAPS automates case management, provider licensing, financial accounting, payments for services, provider training, contract management, and reporting functions.

CAPS processes transactions online and through overnight batch processes at the Department of Administration's mainframe computer center. Users connect to CAPS through personal computers located within regional and county offices. CAPS is used by over 900 employees at the Department of Public Health & Human Services and Department of Corrections (DOC). CAPS is designed to provide the following benefits:

- Automate the payment approval process and warrant issuance to service providers.
- Support the intake of information related to alleged incidents of abuse and neglect, and subsequent departmental investigation and actions, and track all contacts made with individuals associated with the case and all court actions.
- Maintain client information such as relationships, addresses, aliases, educational background, medical history, special needs, and financial resources.
- Maintain provider information such as services, rates, key personnel, training and licensing requirements, and a placement history for each provider facility.

Application Controls Conclusion

Due to data input, funding source, and system output reliability issues, we concluded application controls are not adequate. Audit issues address completeness and accuracy of data entry, processing errors, and usefulness of system output for management information and reporting purposes. Based on additional work performed, we conclude several of these issues may have been avoided during system development.

The audit reviewed a representative sample of the 407,376 transactions for child protective service clients and associated service providers recorded on CAPS as of March 1997. We evaluated department procedures for processing client protective service transactions by reviewing data entry controls, application processing functions, and controls over system output. The following sections discuss the review and recommendations where the department could improve input, processing and output controls over CAPS.

Accuracy of Data Entry

The audit compared client information maintained in hard copy files to online CAPS data for accuracy and completeness. Eight of forty-five client files reviewed included incorrect birth dates and/or social security numbers. Also the files were missing hard copy documentation such as copies of birth certificates and social security cards, although required by department policy.

The missing information or data entry errors could cause incorrect eligibility determination. For example, federal regulations do not allow foster care services to clients over the age of 18 except in certain circumstances. Incorrect birth dates in CAPS could allow services to clients who do not meet the eligibility requirements.

The issues identified may have occurred during system implementation when client files were converted to CAPS. During this process, caseworkers were responsible to ensure information from the client database was converted completely and accurately.

The department has not established uniform intake procedures statewide. Some regional offices have eligibility specialists responsible for data input and eligibility determination, but in other offices, the caseworkers enter the information in addition to regular duties. Uniform intake procedures would help ensure completeness and accuracy of data entry, and proper eligibility for services.

Recommendation #10-3
We recommend the department establish uniform intake procedures to ensure completeness and accuracy of data entry and eligibility determination.

Agency Response #10-3:
Concur. The Child and Family Services Division (CFSD) will review existing practices and the feasibility of standardizing such practices. Recommendations for change will be submitted to management for consideration by April 1, 1998 with management action and implementation to occur by June 30, 1998.

Correction and Resubmission of Data Entry Errors

Caseworkers and probation officers process payments to service providers daily through CAPS. During overnight processing, the transactions submitted that day are subjected to edits which verify client eligibility, claim accuracy, and completeness. Transactions which do not pass the edits must be corrected and resubmitted for processing before CAPS will authorize payment to the service provider.

Industry guidelines suggest management implement procedures to identify and correct processing errors. Although CAPS produces a report of suspended transactions, we found the department has not corrected the transactions. The department could not provide an estimate of the total suspended transactions, which range from one to twelve months old.

Several reasons identified during the audit include:

- Personnel could not correct suspended transactions due to the volume of errors following system implementation.
- Due to the volume of errors, central office does not have sufficient personnel resources to review and correct the processing errors.
- The error report provided to regional offices is not sorted by region and does not report all processing errors for each suspended transaction.

In order to pay service providers, the department bypassed CAPS and issued warrants directly through the Statewide Budgeting & Accounting System (SBAS). Because the errors have not been corrected, CAPS does not report all service provider payment transaction activity.

Recommendation #10-4
We recommend the department:

A. Establish priority through personnel assignment to review and correct CAPS processing errors.

B. Redesign the error exception report to facilitate regional office review and correction of data processing errors.

C. Update CAPS to include all service provider payment activity.

Agency Response #10-4:

A. Concur. The backlog of error reports noted during the audit was largely due to the volume of exceptions and the increased workload created by and during the conversion process. CFSD central office staff are now current on the review and correction of processing errors. All errors have been researched and the required steps to correct the processing errors have been initiated. Processing error reports are now being reviewed and acted on by central office staff on a daily basis.

B. Concur. The CFSD will submit the recommended change in the error exception report to the system change control committee for prioritization.

C. Concur. In some circumstances where items on the error report could not be corrected quickly, the department paid providers through SBAS rather than CAPS. Additionally, during the first few months of system usage the department experienced some processing problems not related to the error reports, which necessitated the department paying providers through SBAS rather than CAPS.

In order to enter the service provider payment transaction activity into CAPS without generating another warrant (i.e. double payment) a system change is necessary. This change was reviewed and prioritized by the system change control committee on September 12, 1996. Because of the magnitude of work involved to handle a relatively small number of payments, design alternatives are being considered. Consequently, it is not possible to estimate a completion date at this time.

Services Requiring Justification

The department authorizes transportation services to foster care clients for family visitation or other necessary travel. Department policy requires justification for transportation services which cost more than $87.80. CAPS is designed for caseworkers to include a text explanation for services paid that exceed the standard rates.

The audit reviewed all special transportation services processed through CAPS between July 1996 and March 1997 that exceeded $87.80. Thirty-six individual transactions ranging in amount between $88 to $2,142 were processed through CAPS, but none included supporting justification.

The department has not defined the extent of special justification necessary for such services. At a minimum, the justification should include caseworker explanation for authorizing such travel. Without justification, unnecessary services could be processed through CAPS, and client history information is incomplete.

Recommendation #10-5
We recommend the department define minimum required case note justification and follow established procedures to include the justification in CAPS for special transportation services.

Agency Response #10-5:
Concur. Practices and procedures for authorization of special transportation services will be reviewed with management and supervisory staff. Additionally, this item will be referred to the appropriate CFSD policy standing committee for review, drafting and adoption of policy on the requirement for and content of the special justification text screen. The anticipated date of completion for this task is June 30, 1998.

Approval for Services

CAPS is designed to ensure payments for client services are entered and approved by authorized individuals. Depending on the service entered for payment, CAPS requires supervisor, regional administrator and/or central office approval. The audit found transactions entered and approved by caseworkers, although supervisor and/or regional administrator approval is required. Based on our findings, the authorization controls, as designed in CAPS, were not operating following system implementation.

Industry guidelines suggest employees should not have individual access privileges to perpetrate and conceal errors or irregularities. Without authorization controls, users could enter fictitious clients or process payments to fictitious service providers.

Following system implementation, the department experienced difficulty processing transactions through CAPS. In order to process the transactions, the department temporarily suspended CAPS authorization controls. Suspending the parameters allowed caseworkers to bypass authorization controls. The department indicated the controls are now in place to disallow transaction processing by the same employee.

Recommendation #10-6
We recommend the department maintain authorization controls as designed and implemented in CAPS.

Agency Response #10-6:
Concur. The department agrees to maintain authorization controls as designed and implemented in CAPS.

Eligibility Determination

CAPS assists caseworkers in determining client eligibility for services and facilitates the accounting and service provider payment process. Caseworkers enter specific client information into CAPS and create a list of services to provide for the client. Depending on client eligibility, the services may be payable through federal program grants such as Title IV-A Emergency Assistance under Family Support Payments to States (CFDA #93.560) or Title IV-E Foster Care (CFDA #93.658).

Child and Adult Protective Services System

This audit reviewed payments to service providers for eligibility according to federal regulations. For example, we verified clients were eligible to receive services and that the services were provided by authorized service providers. We also verified services were properly accounted for and charged against the appropriate federal grant or state funds. Audit findings address improper eligibility determination, lack of an audit trail for client eligibility status at various points in time, and unsupported system generated adjustments.

Funding Source Code Assignments

CAPS assists caseworkers in choosing the appropriate federal grant depending on client eligibility. For example, CAPS will allow caseworkers to select the federal foster care funding source if a client meets federal requirements for the Title IV-E grant. However, caseworkers can still authorize services to be paid with General Fund moneys. Caseworkers processed several transactions through CAPS to the General Fund, although clients met federal grant eligibility requirements.

The audit reviewed 45 transactions processed through CAPS to determine if caseworkers select the appropriate funding source for services they authorize. Three of forty-five transactions, ranging in amounts from $30 to $200 were charged to the General Fund instead of federal grant sources. Based on further review of all transactions processed for the three clients we found:

Client A - $4,322 in service charges could have been paid by federal Title IV-E Foster Care. The CAPS audit trail no longer identifies the client's eligibility status at the time the transactions were processed. Current eligibility information in CAPS supports the client was foster care eligible.

Client B - $735 services eligible for federal Title IV-A Emergency Assistance. The caseworker incorrectly authorized payment from the General Fund.

Client C - $1,681 services eligible for federal Title IV-A Emergency Assistance, and $1,695 services eligible for federal Title IV-E Foster Care. The caseworker incorrectly authorized payment from the General Fund.

In addition to the sampled transactions, we found 11 client files with services incorrectly charged to the General Fund. Caseworkers requested central office employees to adjust these services to appropriate funding sources, but two of the files still needed adjustment at the time of our review.

Section 17-2-108, MCA, requires agencies to apply expenditures against non-General Fund money whenever possible before using General Fund appropriations. In order to comply with state law, the department must establish procedures to ensure services are charged to the appropriate federal grant.

Several of the errors occurred during the initial implementation of CAPS, when users were not as familiar with eligibility and payment procedures. As a result, caseworkers charged services to the General Fund in error.

Based on these findings the department should improve caseworker procedures to ensure correct funding source selection. Also, transactions previously processed through CAPS need to be evaluated to ensure funding sources charged are accurate.

Due to the complexity of decisions required for funding source selection, the department did not design CAPS to automatically select funding sources. Because caseworkers make the decision, the department should ensure CAPS users understand funding source selection procedures and related department policies. Caseworkers we interviewed noted refresher training would improve their understanding of CAPS.

Some regional offices have eligibility specialists with specific responsibility to evaluate client eligibility and establish client services. At other offices, caseworkers perform these functions. Youth court office procedures are shared between administrative personnel and probation officers. Consistent procedures statewide could reduce eligibility errors and unnecessary adjustments.

Recommendation #10-7
We recommend the department:

A. Review and correct CAPS transaction funding sources according to client eligibility.

B. Establish consistent procedures among statewide CAPS users to ensure proper funding source selection according to client eligibility.

C. Provide additional training to CAPS users over CAPS operations and department policies and procedures.

Agency Response #10-7:

A. Concur. Review and correction of CAPS funding source transactions have been an ongoing activity since system implementation. Each of the five DPHHS protective services regions has a financial specialist responsible for review and maximization of federal funds for the clients in their region. These individuals receive and review monthly transaction reports prepared by CAPS. This process resulted in a number of funding source adjustments being made. CFSD staff believes all past CAPS funding source transactions have been manually reviewed and corrected as of this date. Review and correction of funding source usage is an ongoing CFSD activity. The department will also request that the Department of Corrections (DOC) implement similar practices for review and correction of funding source transactions related to probation and parole clients as these are not under the purview of DPHHS.

B. Concur. The CFSD will review existing practices and the feasibility of standardizing practices for offices with similar numbers and skill levels of staff assigned to them. DPHHS will request that DOC implement these same practices statewide.

C. Concur. CFSD provides training for staff on a regular basis. Training in funding source selection and usage is done on an ongoing basis. The recommendation for additional policy training in the selection and usage of funding sources will be forwarded to the CFSD training committee for action. The CFSD is in the process of recruitment of a CAPS liaison for the Division. The primary focus of this position is to draw together all system users and assess and plan for cross divisional and cross departmental issues, such as policy and training issues. We believe this position will assist us in recognizing and addressing unmet user needs.

DOC staff will be invited to attend DPHHS sponsored training related to funding source issues. DPHHS also encourages the DOC to hold training specific to their clients and needs.

The Operations and Technology Division (OTD) regularly provides training in CAPS system usage. New CAPS users and those seeking refresher training are encouraged to attend within the constraints of their travel and administrative cost budgets.

System Generated Adjustments

Due to changes in client eligibility, central office employees adjust previously processed transactions through CAPS. Adjustments include changing services charged from one funding source to another. For example, services originally paid by the general fund may be eligible for federal foster care funding, based on new client information input to CAPS by the caseworker. Central office employees review online case information and adjust prior payment transactions accordingly.

Industry guidelines suggest management ensure computer applications have an adequate audit trail of transactions. The audit found cases where CAPS automatically reversed central office adjustments although the adjustments appeared reasonable given online supporting documentation. The department could not verify the validity of the system generated adjustments processed through CAPS because original eligibility records at the time of adjustment had been updated since initial input and are no longer available.

In another example, CAPS automatically adjusted services to the federal IV-A Emergency Assistance grant, although the client was not eligible. The department determined processing errors in CAPS caused incorrect funding source selections. For example, processing errors included:

- CAPS eligibility determination functions reviewed the wrong time period and, therefore, found the client ineligible for federal foster care funding.
- CAPS warrant processing edits incorrectly determined the client eligible for emergency assistance based on eligibility decisions on a completely different client.

Incorrect processing decisions may explain why system generated adjustments are not supported by CAPS online client information. Lack of a complete audit trail impairs caseworker ability to review client eligibility history or support adjustment transactions.

CAPS applies the same eligibility determination and warrant processing edits to all transactions. Therefore, until the department corrects the programming logic and resubjects transactions to eligibility processing, we question the accuracy of funding sources processed through CAPS in accordance with actual client eligibility. Based on the specific transaction identified above, we question the allowability of $356 charged to the federal IV-A grant "Family Support Payments to States-Assistance Payments" (CFDA #93.560).

Recommendation #10-8
We recommend the department:

A. Establish a complete audit trail for CAPS which includes client eligibility history.

B. Correct CAPS program logic to ensure accurate funding sources are processed.

C. Review and correct system generated adjustments to ensure funding sources are processed through CAPS in accordance with actual client eligibility.

Agency Response #10-8:

A. Concur. A system change to provide an historical audit trail of all client eligibility records has been requested. The implementation date cannot be estimated until this request is prioritized by the CAPS change control committee.

B. Concur. The program logic has been corrected.

C. Concur. The adjustments have been reviewed and corrected either by the system or manually.

Reports for Reconciling CAPS to SBAS

CAPS interfaces and updates SBAS through a nightly batch update process. Information updated to SBAS includes financial activity reported through CAPS such as service provider payments and subsequent accounting adjustments.

The department has attempted to reconcile activity between the two systems but original CAPS reports did not include enough detail for comparison. Since development of new reports following our audit, the department is attempting to complete the reconciliation. However, the new reports are bringing additional processing errors to the department's attention. Because of the additional errors and an undetermined number of adjustments which still need to be entered into CAPS, the department is unable to estimate when the reconciliation will be completed.

Previous financial-compliance audits have recommended a complete reconciliation of foster care transactions. If original development design had specified detailed reports, perhaps the department would be better prepared to reconcile CAPS activity. Recently developed reports will enable personnel to reconcile CAPS and SBAS.

Federal program regulations require all federal charges be supported by the accounting records. Without a complete reconciliation, we question the reliability, completeness, and accuracy of CAPS financial activity reported to SBAS. Other issues in this report address improper federal grant charges due to funding source selection procedures. Resolving funding source issues and completing the reconciliation to SBAS will enable the department to verify the overall reliability of information reported by CAPS.

Recommendation #10-9
We recommend the department reconcile CAPS to SBAS to ensure financial information reported on the state's accounting records is complete and accurate.

Agency Response #10-9:

Concur. The department has received the reports needed to complete a reconciliation of CAPS to SBAS and anticipates completing the reconciliation by October 31, 1997.

Financial Reporting System Reconciliation

The detailed financial information for grants and contracts at MSU-Bozeman is recorded on its Financial Reporting System (FRS). The MSU-Bozeman, Grants and Contracts Office, prepares federal financial reports and the Schedule of Federal Financial Assistance using the detail information. The FRS is summarized and recorded on the Statewide Budgeting and Accounting System (SBAS). MSU-Bozeman Controller's Office personnel complete a reconciliation of the FRS summary information and SBAS at fiscal year-end and make adjustments, if necessary, to the appropriate system. During the audit, we noted the detail and summary information did not agree at fiscal year-end 1995-96 and 1996-97 by a net amount of $32,836 and $14,205, respectively. MSU-Bozeman personnel were unable to explain the differences or to demonstrate the federal financial reports and the Schedule of Federal Financial Assistance were supported by SBAS.

Federal regulations require federal financial reports and claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared.

Grants and Contracts Office personnel complete daily reconciliations of the detail and summary information; however, a formal reconciliation is not completed at fiscal year-end. Since payments are made from SBAS, it is important the detail financial information can be reconciled with SBAS. When university grant reports and charges are not supported by or reconcilable to the university's underlying accounting records, federal grantors may impose sanctions. MSU-Bozeman personnel should identify reconciling items at fiscal year-end and ensure any errors are corrected on the respective system.

Recommendation #11-1
We recommend the university complete a reconciliation of the Financial Reporting System detail and summary financial information at fiscal year-end and resolve any differences.

Agency Response #11-1:
Concur. Bozeman's Grants and Contracts Office will ensure the reconciliation is completed at fiscal year-end.

Grants and Contracts Expenditures

MSU-Bozeman receives funds from federal, state, and private sources for research, public service, and instructional support projects conducted by the university. In fiscal year 1996-97, MSU-Bozeman grants and contracts expenditures were approximately $36 million, of which $29 million were charges to federal grants. All accounting transactions pertaining to grants and contracts other than Extension Services and Student Financial Aid are routed through the MSU-Bozeman's Grants and Contracts Office. The Grants and Contracts Office monitors funds spent for projects. Grants and Contracts Office personnel review transactions to ensure costs are approved by appropriate departmental personnel. In addition, personnel review transactions for allowability under federal regulations and the grant agreement prior to processing the transactions for payment. We tested transactions processed through the Grants and Contracts Office and noted the following issues.

Employee Certification of Time Spent on Grants

Office of Management and Budget (OMB) Circular A-21, requires a payroll distribution system be incorporated into the official records of the institution and reasonably reflect the activity for which the employee is compensated by the institution. The circular requires the method used recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs.

-- At MSU-Bozeman, we noted seven instances where employees were paid from various grants. Later, the employees certified the distribution of time spent in a different manner. MSU-Bozeman did not adjust grant charges based on the employee certification report of where their time was spent. When one department was contacted by Grants and Contracts personnel regarding the difference, the certification was adjusted rather than actual payment on SBAS. When we contacted the department, personnel stated they were told to change the certification report. The concern relates to a variety of grants under MSU-Bozeman Grants and Contracts Program. MSU-Bozeman should establish a system to compare employee's certification of actual time spent on grants with charges to grants on SBAS and make appropriate adjustments on SBAS. Failure to base grant charges on accurate and supportable time and effort reports could lead to questioned costs.

-- MSU-Bozeman administers two similar grants in two separate locations. We noted one instance where MSU-Bozeman charged payroll of an individual to one of the grants and the associated travel to the other grant. MSU-Bozeman should have allocated both the payroll and travel to the two grants based on the proportionate time and effort spent on each grant.

-- At MSU- Northern, we noted two transactions moving a portion of nine employees' salaries and benefits to federal grants. While the total charges are supported, the charges moved are not supported by after-the-fact time and effort reports or another basis for reasonably estimating the allocation of the charges. MSU-Northern personnel stated the salaries and benefits were moved based on budgets in the grant agreements. MSU-Northern should document support for personal service expenditures charged to federal grants in accordance with federal regulations.

Recommendation #11-2

We recommend the university establish a system:

A. To compare employee's certification of actual time spent on grants with charges to grants on SBAS and make appropriate adjustments on SBAS.

B. That ensures charges to grants are based upon certified time and effort reports at its Northern campus.

Agency Response #11-2:

Concur. Bozeman's Grants and Contracts Office has completed programming changes that informs Grants and Contracts administration as to variances. Grants and Contracts personnel will follow up with the appropriate course of action in a timely manner. Northern will ensure documentation is maintained to support time and effort.

Early Pell Grant Disbursements

To minimize interest costs to the federal government, federal regulations require the university to credit financial aid to a student's account no more than ten days before the first day of a semester if the credit is made with federal funds. At MSU-Billings, we sampled 26 student aid files and noted six instances where Federal Pell Grant funds (CFDA #84.063) were disbursed early.

Business office personnel were aware of the federal requirement but stated they miscalculated the number of days. This incorrect calculation was input to the computer system so funds were disbursed to student accounts earlier than federal regulations allow. Funds were disbursed early to students receiving financial aid who paid on the first day of the scheduled fee payment for spring semester 1996. These students' aid was credited to their accounts 13 days before the first day of the semester, three days earlier than allowable under federal regulations.

Recommendation #11-3
We recommend the university develop procedures to ensure Pell Grant payments are disbursed in accordance with federal regulations.

Agency Response #11-3:
Concur. The Billings campus administration mistakenly used *working days*, rather then *calendar days*, in determining the Pell Grant disbursement date. This has been corrected and resolved.

Federal Compliance Issues

The department received federal financial assistance from the U.S. Departments of Energy, Interior, General Services Administration, Defense, Education, the Treasury and the state Department of Justice. During our audit we noted three areas where the department could enhance compliance with federal laws and regulations. These issues are discussed in the following sections.

Cash Management Improvement Act

The federal government established the Cash Management Improvement Act to achieve greater efficiency and equity in the transfer of federal funds to state governments. The state entered into an agreement with the federal government that documents, by federal assistance program, how the state should draw cash from federal grantor agencies and how often the cash is drawn. As part of the agreement, no interest would be due to or from the federal government if the agreement is followed. If for any reason the agreement is not followed, the department is responsible for calculating the interest due to or from the federal government.

The department requests each state agency that operates a federal program covered by the cash management agreement to compile information documenting when cash was drawn and when the actual expenditures occurred. The department measures this information against the agreement and calculates the amount of the interest, if any, owed to the federal government.

We noted the department did not calculate interest due from the federal government when the state made late draws in fiscal years 1995-96 and 1996-97. Department personnel indicated the federal government is not required to pay interest if the state decides not to draw funds in a timely manner. Federal regulations require the state to calculate all interest incurred whether it is due to or from the federal government. The federal regulations state the federal government may deny interest if a state consistently and deliberately draws cash late.

We reviewed the interest calculations in detail for fiscal year 1995-96. During our review, we identified the following areas where the department can improve its interest calculations.

- For one grant, the interest calculation did not take into account the beginning cash balance. If this were taken into account the state would have paid more interest.

- One grant operated under a clearance pattern that had not yet been approved by the federal government. When the department calculated the interest liability they did not use the approved pattern for interest calculations. This may have resulted in more interest due to the federal government.

- For one grant the department calculated the interest due two ways and selected the computation that resulted in the lowest interest due to the federal government rather than using the proper method.

- For one grant the department used amounts rounded to the nearest thousand dollars. This is not allowable based on the cash management agreement.

Department personnel corrected these issues in the fiscal year 1996-97 interest calculation process. The department needs to recompute fiscal years 1995-96 and 1996-97 interest calculations to determine any additional amounts owed to or due from the federal government.

Recommendation #12-1
We recommend the department:

A. Ensure interest calculations are proper.

B. Recalculate the amount of interest owed to or due from the federal government for fiscal years 1995-96 and 1996-97.

Agency Response #12-1:

A. Concur. We will review CMIA regulations on calculation of interest with staff involved in the calculation process to ensure interest calculations are done properly.

B. Concur. Interest owed to or due from the Federal Government will be recalculated for Fiscal Years 1996 and 1997 and submitted with the Fiscal Year 1998 calculations per the request of Department of Treasury.

Federally Funded Construction Projects

When a construction project is funded with federal funds, the agency responsible for the federal funds is required to notify A&E to ensure federal requirements are met during the contract process. It is unclear who is responsible for federal compliance requirements when the federal grant is given to one state agency, but A&E uses the funds for construction. There is no written agreement between A&E and the state agencies with federal construction money to document who is responsible for complying with federal regulations.

One federal requirement the department must comply with requires verification that a contractor has not been debarred or suspended from participating in federal projects prior to issuing a contract that is federally funded. To ensure compliance with the law regarding debarred and suspended parties, A&E has the contractor sign a certification stating the company has not been debarred or suspended. Under federal regulations, this signed certification by the contractor is not adequate to document compliance with the regulation. The federal government publishes a list of debarred and suspended contractors which the department should review prior to selecting the contractor.

Section 18-2-403(5), MCA, specifies that the Montana preferences do not apply to federally funded projects. The department must exclude these preferences from construction projects that include federal funds, or include a clause in the contract that states these preferences do not override federal requirements.

In our sample of 23 projects, we identified three projects which were either partially or fully funded with federal funds. Only one of the three contracts specified in the contract that the projects were federally funded. Since two of the projects did not specify they were federal projects they did not use the federal contract language which includes the clause that states Montana preferences do not apply. One of the contracts did not include the debarred and suspended party certification that is required by A&E.

As a result of the issues discussed above, we question the Sport Fish Restoration Grant (Catalog of Federal Domestic Assistance (CFDA) #15.605) in the amount of $26,676, and the Outdoor Recreation -

Acquisition, Development and Planning Grant (CFDA #15.916) in the amount of $42,477. Both of these grants were subgrants through the state Department of Fish, Wildlife and Parks.

Recommendation #12-2
We recommend the department:

A. Enter into a written agreement with each agency that is supplying federal funds for a project that outlines who is responsible for ensuring compliance with federal requirements.

B. Verify whether a contractor in a federally funded project has been debarred or suspended prior to finalizing contracts.

C. Include a statement in federally funded construction projects that specifies state preferences do not override federal requirements.

Agency Response #12-2:

A. Concur. We will review our procedures with agencies supplying federal funds for a project and develop a process to ensure compliance with federal requirements.

B. Concur. This recommendation has already been implemented.

C. Concur. This recommendation has already been implemented.

Schedule of Federal Financial Assistance

The department receives federal financial assistance from several federal agencies and some state agencies. The Single Audit Act requires states to prepare a Schedule of Federal Financial Assistance which includes all federal financial assistance provided to the state. Federal regulations further require state agencies to develop internal control systems to ensure all federal money is spent in accordance with federal requirements. We noted the department did not include federal financial assistance received during fiscal years 1995-96 and 1996-97 on its Schedule of Federal Financial Assistance as follows.

-- The department received a subgrant through the state Department of Justice from the Drug Control and System Improvement-Formula Grant (Byrne Formula Grant Program CFDA #16.579). Department personnel were not aware the funds were federal financial assistance. Department personnel indicated the grant agreement went to program personnel instead of the accounting personnel.

-- The department receives federal flood control money from the Department of Defense (Flood Control Projects CFDA #12.106). The department has received this money for many years. Department accounting personnel indicated they were not aware of the grant.

-- In fiscal year 1995-96, the department did not include the amount of administrative fees they received from the Department of the Treasury for maintaining the Cash Management Improvement Act Agreement (CFDA #21.999). Department personnel did not consider this federal assistance.

-- We also noted the grant, from the U.S. Department of Education Vocational Education - State Councils (CFDA # 84.053), to the Vocational Education Council, a terminated state agency, was not included on the schedule.

The accounting personnel responsible for reporting federal assistance are not being notified of all federal assistance the department receives. If appropriate department personnel are not aware of federal assistance, they cannot ensure it is spent in accordance with federal requirements and included on the department's grant schedule.

Recommendation #12-3

We recommend the department establish procedures to ensure all federal financial assistance is reported on the Schedule of Federal Financial Assistance.

Agency Response #12-3:

Concur. Information from each division within Department of Administration as to receipt of federal financial assistance will be requested on a yearly basis by Accounting and Management Support Division for input into the Schedule of Federal Financial Assistance.

Department of Public Health and Human Services

Financial Management

The Montana State Constitution and Title 17, MCA, address legal requirements related to fiscal control and accountability. Specific statutes address topics such as cash depositing and inter-entity loans. Section 17-1-102, MCA, requires each agency to record the transactions necessary to ensure its accounting records are in accordance with generally accepted accounting principles by the close of each fiscal year.

We identified several issues related to fiscal control and accountability during this audit. They include those discussed in this section, as well as those related to expenditure accruals on page D-91, foster care on page D-94, child support payments on page D-110, and the schedules of federal financial assistance on page D-112. Actions taken by Department of Public Health and Human Services (PHHS) personnel resulted in misstatements within the Statewide Budgeting and Accounting System (SBAS) for fiscal years 1995-96 and 1996-97, as well as non-compliance with laws and policies.

During our audit period, PHHS accounting personnel were occupied with daily workloads, department reorganization, and a conversion to the present chart of accounts which includes separate accounting entities for each federal financial assistance program. PHHS now has over 200 active accounting entities.

Reorganization and conversion responsibilities contributed to the non-compliance and accounting errors discussed in this report. Other contributing factors include the diversity and the quantity of transactions, no system to monitor accounting records, lack of supervision and review, and federal and state welfare reform. PHHS also implemented computer applications which required frequent modification and debugging.

The fiscal issues described in this report point to the necessity for PHHS management to properly design and implement an efficient and effective financial management control structure. Such a structure should provide assurance transactions process properly, and in a timely manner. A properly designed and effectively implemented control structure should allow PHHS to more efficiently meet its state and federal mandates.

Vendor/Provider Payments

PHHS routinely generates vendor and provider payments by using advance and prepaid expense accounts, not an expenditure account. There are primarily two computer systems which generate the payments to vendors and providers. Normal processing through these systems includes simultaneous creation of expenditure transactions to clear the advance and prepaid expenses subsidiary accounts. Therefore, two transactions are necessary to properly account for each payment. Expenditure transactions are subject to SBAS appropriations and expenditure control edits while the entries to advance and prepaid expense accounts are not. When errors occur in the expenditure transactions, personnel must process correcting transactions, but this does not prevent the payments from being sent. According to PHHS officials, the systems were designed in this manner to ensure provider and vendor payments were timely. During fiscal years 1995-96, 1996-97, and the first quarter of 1997-98, PHHS processed $55,849,980; $182,428,065; and $41,333,839 of transactions, respectively, which initially bypassed SBAS appropriation and expenditure controls. Most of these payments, over 95 percent of which were from the General Fund, are later subjected to appropriation and expenditure controls as discussed above. However, they do violate provisions of the Montana Constitution and statutory law.

Article VIII, of the Montana Constitution states, "Section 14. Prohibited payments. Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof." Statutory law (section 2-15-1002, MCA and Title 17, MCA) also provide for disbursement from the treasury only upon appropriations made by law.

Use of the advance and prepaid expenses accounts to pay for services which have been provided circumvents appropriation controls built into SBAS. As long as there is cash in the accounting entity, PHHS could continue paying its venders and providers even in the event there was no longer any appropriation authority. Disbursing funds from the state's treasury with limited control is not a good business practice and can adversely impact accountability for the state's assets.

There is an increased risk of not properly recognizing expenditures and any associated revenue when the subsidiary accounts are not cleared appropriately. PHHS personnel did fail to properly recognize revenue and expenditures. Our review of the advance and prepaid expenses subsidiary accounts identified an instance where PHHS paid a bill in the amount of $6,251, but never recognized an expenditure. In another instance, the department recognized the same $5,327 expenditure in each of two fiscal years. These errors would not have occurred had PHHS used an expenditure account, not an asset account, to pay these bills. PHHS personnel could have detected and corrected both of these errors had they routinely reviewed and monitored subsidiary detail ledgers. In a third instance, involving a federal program, we determined PHHS has not requested reimbursement of $383,032 from the federal government for fiscal year 1996-97 payments to providers. PHHS requests reimbursement from the federal government based on recorded expenditures and the $383,032 is recorded as an advance in the General Fund. The advance account must be cleared and expenditures recorded before PHHS can support a request for reimbursement. The General Fund has supported the Department of Energy Weatherization Assistance for Low-Income Persons Program (CFDA #81.042) resulting in lost interest to the state of approximately $1,600 per month until the money is received from the federal government. PHHS personnel could have detected this error had they reconciled federal reports to both the general ledger and subsidiary ledgers.

PHHS could have prevented these errors by initially recording expenditures rather than advances or prepaid expenses. PHHS should modify its payment systems to record vendor/provider payments as expenditures to ensure the payments are subject to appropriation control immediately. The net balance of advances and prepaid expenses was $3,140,485 at June 30, 1997. PHHS should analyze its advances and prepaid expenses subsidiary account balances and process the necessary correcting entries.

Operating Budgets not Recorded on SBAS

Section 17-7-138, MCA, requires PHHS to record its operating budget and any approved changes on SBAS. Each operating budget must include expenditures for each agency program, detailed at least by first-level expenditure categories. Expenditures must be made in substantial compliance with the operating budget, meaning that a first level expenditure category within that budget may not be exceeded by more than five percent.

We reviewed PHHS accounting records to determine whether operating budgets were recorded in accordance with state law. We identified significant amounts of budget authority that were not allocated by the first level object of expenditure. For example, at fiscal year-end 1995-96, the Health and Policy Services Division had unallocated authority of $149,591,605 and the Senior and Long-Term Care Division had unallocated authority of $228,215,155. These divisions had unallocated authority of $218,060,390 and $151,171,639 at fiscal year-end 1996-97, respectively. PHHS accounting records do not demonstrate whether expenditures were made in substantial compliance with an approved operating budget.

Division budget personnel prepare monthly reports containing budget information by expenditure category which are submitted to the Director's Office and the Operations and Technology Division. Division budget personnel maintain separate spreadsheets to support these monthly reports because this information is for the most part unavailable from the accounting records. The practice of maintaining separate spreadsheets is an inefficient allocation of resources as SBAS can provide the information needed for preparation of the monthly reports. In addition, the operating budget information is not available for other SBAS users. PHHS should comply with state law by properly recording the operating budget on its accounting records.

Department of Public Health and Human Services

Accruals and Deferrals of Federal Revenue

PHHS did not record all the financial activity necessary to properly accrue and defer revenue in the federal special revenue accounts by June 30, 1997. Accrual and deferral transactions are necessary to match revenue with reimbursable expenditures. There were errors in 53 of 135 accounts reviewed. These included understatements and overstatements in amounts due from the federal government, deferred revenue, and federal revenue in the Special Revenue Fund. These errors resulted in the following net misstatements at June 30, 1997:

Over (under) stated	
Due from the Federal Government	$(4,206,441)
Deferred Revenue	$1,467,220
Federal Revenue	$(5,673,661)

Supervisory review of the SBAS general ledger would have detected and, in some cases, prevented these errors. PHHS personnel have stated they were aware there were some federal special revenue fund accounting entities not balanced and reconciled at fiscal year-end 1996-97. They further stated that because many transactions affecting these entities were processed on the last two days of fiscal year-end, it was virtually impossible to complete a thorough review and submit correcting entries. They plan to have all entities reviewed and corrected by May 1998, and to establish new procedures for fiscal year-end 1997-98 which will permit time for a thorough review and reconciliation of these entities.

Federal Revenue and Expenditure Errors

PHHS processed six transactions during fiscal year 1995-96 which were inadvertently coded to current year revenue rather than prior year revenue. This mistake overstated federal revenue and direct entries to fund balance in the Special Revenue Fund by $261,027. These transactions were part of the department's conversion from one combined federal accounting entity to separate federal program accounting entities.

PHHS entered into a $6,000 contract with the U.S. Department of Health and Human Services to study the status of women's health in the state of Montana. Prior to receiving payment on the contract, PHHS charged the expenditures to an unrelated federal program account. PHHS should have recorded revenue when it received the reimbursement and then charged the expenditures to the appropriate federal account; however, PHHS recorded the reimbursement as an expenditure abatement in the unrelated federal program account. PHHS thus understated fiscal year 1996-97 revenues and expenditures by $6,000. PHHS personnel in the affected bureau stated they did not know how else to handle the contract.

Accounts Receivables and Accrued Expenditures

We found two instances where PHHS did not record accounts receivable and accrued expenditures transactions. Each of these impacted the Medicaid program (Medical Assistance Program CFDA #93.778).

PHHS inappropriately recorded a receivable of $3,496,000 in the General Fund for estimated payments made to nursing or care center providers in June 1997. Normally, payment information is provided by the Medicaid claims processor to support the payments which are then recorded as expenditures. However, the information for the first two weeks of June 1997 was late and PHHS chose not to delay provider payments. Because this transaction was not a valid receivable, June 30, 1997 General Fund accounts receivable are overstated by $3,496,000. If the payments had been properly recorded they would have reduced the Medicaid accrued expenditure estimate. As a result, accrued expenditures are overstated by $1,083,410 and $2,412,590 in the General Fund and Special Revenue Fund, respectively. PHHS also did not recognize that paying the entire amount from the General Fund created a receivable/payable relationship between the General Fund and the Medicaid account in the Special Revenue Fund. Therefore, Due From Other Accounting Entities is understated by $2,412,590 in the General Fund and Due To Other Accounting Entities is understated by the same amount in the Special Revenue Fund.

PHHS did not record Medicaid Drug Rebate receivables. At June 30, 1997, accounts receivable were understated and expenditures overstated by $841,567 in the General Fund and $1,874,040 in the Special Revenue Fund for the Health and Policy Services Division program. PHHS personnel stated recording drug rebate receivables was a change in accounting policy discussed late in the fiscal year-end 1996-97 period. The fiscal bureau chief and staff did not have time to research the matter and arrive at a decision prior to the close of the fiscal year. PHHS should consider establishing and enforcing internal cut-off dates to ensure transactions are recorded in the proper fiscal year.

Correction of Expenditure Accruals

PHHS understated its fiscal year 1996-97 expenditure activity by $804,000 in the Women, Infants, & Children program (CFDA #10.557). This error occurred due to attempts to clear a fiscal year 1994-95 expenditure accrual. In June 1996, personnel processed a transaction which cleared the accrual but used the wrong expenditure control account. Transactions were then processed to correct this error. Personnel improperly processed two additional transactions during fiscal year 1996-97 related to this situation. These two transactions caused the $804,000 understatement. A formal reconciliation, timely performed, between the general ledger and subsidiary program system would have identified the needed action and prevented the fiscal year 1996-97 error from occurring.

SBAS Mini-Coding

We identified two types of misstatements which were caused by a procedure called "mini-coding." When an agency mini-codes transactions, the information required for input is minimal. As the transactions process, logic and coding previously provided by the agency and embedded in SBAS expand the mini-coding into completely coded transactions. The expansion can include splitting one line of coding on a document into two or more transactions; for example, a vender mini-coded payment funded by both General Fund and federal moneys would be expanded to at least two lines of coding. The advantage of mini-coding is that it generally reduces the time involved in transaction processing, as well as reducing coding errors.

The first type of mini-coding misstatement involves expenditure object codes. SBAS accepts only one object code per line of coding on a document. This can result in improperly coded transactions when both state and federal moneys are involved. PHHS charged some General and State Special Revenue Fund expenditures to the Grants from Federal Sources expenditure code and charged some Federal Special Revenue expenditures to the Grants from State Sources code in the Addictive and Mental Disorders Division program during both fiscal years under audit. Grants from State Sources are understated by $157,355 in fiscal year 1995-96 and by $5,475,510 in fiscal year 1996-97. Grants from Federal Sources are overstated by those same amounts.

The second type of mini-coding misstatement occurred during the fiscal year-end period. State accounting policy requires the use of cash cut-off accounts during each fiscal year-end period for certain transactions. Two of these accounts replace increases to the regular cash account and two replace decreases. Mini-coding during the fiscal year-end period automatically replaces the regular cash account coding with cash cut-off accounts. State policy requires the use of the regular cash account for some transactions processed during the year-end period; an example is a correction involving cost centers within a single accounting entity. If the cash cut-off accounts are used in this situation, the result is an overstatement of assets and liabilities.

We reviewed PHHS use of the cut-off accounts during fiscal year-end 1996-97. PHHS made various corrections to its accounting records during this time period using the mini-coding procedures discussed above. The result, for PHHS at June 30, 1997, was a $3,144,021 overstatement of General Fund assets and liabilities and a $6,059,276 overstatement of Special Revenue Fund assets and liabilities.

PHHS should evaluate its document coding procedures and determine the most efficient way to comply with state accounting policy concerning year-end transactions. One method may be to request assistance from the Accounting Bureau at Department of Administration in developing final year-end transactions to correct any misstatements associated with the use of mini-coding during the fiscal year-end.

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the state as an agent for individuals, private organizations, other governments, or other funds. PHHS accounts for escheated property in an expendable trust fund. PHHS uses an agency fund to account for resident accounts at the Montana State Hospital (MSH), Eastmont Human Services Center (EHSC), Montana Development Center (MDC), Eastern Montana Veterans' Home (EMVH), Montana Mental Health Nursing Care Center (MMHNCC), and the Montana Veterans' Home (MVH). Facility personnel maintain these resident moneys in approved non-treasury bank accounts. The individual resident account information is maintained on a Resident Account System (RAS) at each facility. RAS information is used to update SBAS. PHHS also uses an agency fund to account for the Eastern Montana Veterans' Home reimbursements received from the Veterans' Administration. We reviewed the accounting activity recorded in the Trust and Agency Funds and identified several accounting errors. These are outlined in the following paragraphs.

Eastern Montana Veterans' Home Nursing Care Reimbursements

PHHS receives a reimbursement from the Veterans' Administration for services provided to veterans at the EMVH and MVH. Both facilities are state-owned and have as their mission the long-term care of veterans. The MVH is run by state employees while PHHS contracts for the operation of the EMVH .

PHHS records the reimbursement for the MVH in a federal special revenue account and the reimbursement for the EMVH in an agency fund. PHHS personnel indicated they used an agency fund for the EMVH reimbursements because the Veterans' Administration was unwilling to send the money directly to the contractor. The reimbursements for both veterans' homes are received from the same source and for the same purpose. These reimbursements are federal financial assistance and should be recorded in federal special revenue accounts. As a result of this error, Nonbudgeted Revenues and Expenditures are overstated in the Agency Fund and Budgeted Revenues and Expenditures are understated in the Special Revenue Fund by $211,371 in fiscal year 1995-96 and $589,407 in fiscal year 1996-97.

Montana State Hospital

In the prior Department of Corrections audit, we reviewed MSH procedures for reconciling the RAS to its non-treasury cash account. As a result of that review, we determined MSH personnel did not have adequate reconciliation procedures in place. We also determined the total balance on the RAS did not agree to the non-treasury cash account or to the sum of the individual accounts within the system. The system total exceeded the checking account balance by $383 and was out-of-balance with the individual accounts by $486.

We reviewed current RAS reconciliation procedures at MSH. We determined that while MSH personnel have established reconciliation procedures, the differences identified in the prior audit have not been corrected. MSH is responsible for maintaining accountability over resident moneys as part of its fiduciary responsibilities to the residents. By not correcting the errors identified in the prior audit, PHHS has not met its fiduciary responsibility.

MSH personnel indicated they believe the balances in the checking and savings accounts are correct and they are unable to locate the errors within the RAS. However, MSH is liable to each resident for the balances in their accounts. MSH should process the transactions needed to bring the non-treasury bank accounts into balance with the sum of the individual resident accounts, and then ensure future reconciliations are performed in a timely manner.

Additions/Reductions to Property Held in Trust

The facilities record transactions on SBAS which summarize the activity recorded within each RAS. We identified several instances where SBAS does not agree to the RAS information. Some of the errors resulted in a misstatement of additions and reductions to property held in trust. Others resulted in misstatement of beginning and ending property held in trust balances. The effect of these errors are outlined in the following paragraphs:

- MDC's calculated June 30, 1996 property held in trust amount differed from the amount recorded on SBAS. This resulted in an unexplained reduction to property held in trust of $3,318 during fiscal year-end 1995-96.

- MMHNCC personnel adjusted SBAS records to match the June 30, 1996 and 1997 bank statements. Because timing differences existed between the bank balances and the RAS balances, the following misstatements exist:

	Over (Under) Stated
July 1, 1995 Property held in trust	$ 2,145
Fiscal year 1995-96 Additions to property held in trust	$35,578
June 30, 1996/July 1, 1996 Property held in trust	$37,723
Fiscal year 1996-97 Reductions to property held in trust	$32,738
June 30, 1997 Property held in trust	$ 4,985

- MVH personnel removed accountability for individual veterans' checkbooks from SBAS in fiscal year 1995-96. This caused reductions to property held in trust to be overstated and custodial cash to be understated by $160,646. This issue was addressed in the Department of Corrections audit report for the two fiscal years ended June 30, 1994.

- PHHS personnel record the net receipts or disbursements from the RAS as either a net addition or net reduction to property held in trust on SBAS. Netting this activity on the accounting records does not accurately reflect the activity which has occurred within each RAS. PHHS personnel should separately record the total additions and total reductions on SBAS to accurately reflect the RAS activity.

Escheated Property

We reviewed procedures used by PHHS to account for escheated property. Accounting standards define escheated property as the reversion of property to a governmental entity in the absence of legal claimants or heirs. It includes abandoned and unclaimed property. PHHS currently uses its escheated property account to track stale-dated warrants. That account should also be used for any property which facility residents do not take with them when they leave. We determined this property is not accounted for in accordance with state accounting policy. PHHS personnel stated copies of the policies outlining proper accounting of escheated property were sent to facility accountants. Facility accountants stated this guidance was never received. Because personnel failed to follow state accounting policy both at the facilities and in Helena, revenues and transfers out are misstated on PHHS's accounting records. We were unable to determine the extent of the misstatement, but believe there is no material effect on ending fund balance in the Expendable Trust Fund. PHHS should establish procedures to ensure escheated property transactions are recorded in accordance with applicable state accounting policy.

Child Support Enforcement Division Accounts Receivable

PHHS initially records all money received for child support payments as revenue and all disbursements as expenditures in the Agency Fund. Receipts and disbursements were $32.2 million and $31.7 million, respectively in fiscal year 1996-97. Occasionally, custodial parents receive more money than they are entitled to. This can occur when the non-custodial parent remits less than the monthly child support, yet PHHS sends the custodial parent the entire amount of monthly support. It can also occur when PHHS does not properly apply a currency exchange rate prior to sending the payment to the custodial parent.

When custodial parents receive more money than they should, PHHS records an account receivable in the Agency Fund. At June 30, 1996 and 1997, the accounts receivable totaled $204,236 and $249,460, respectively. If the program ceased operation, there would not be enough cash in the account to make all of the final payments to custodial parents. Recording a receivable in the Agency Fund indicates PHHS uses money received from other non-custodial parents to cover its erroneous custodial parent payments. PHHS has a fiduciary responsibility to both custodial and non-custodial parents and should properly account for moneys entrusted to it. Loaning other people's money is not appropriate. PHHS should record the receivables in either the State Special Revenue Fund child support account or the General Fund and transfer cash into the Agency Fund to keep the property held in trust intact.

Inter-entity Loans

State law requires every accounting entity have a positive cash balance at year-end. When necessary, agencies use inter-entity loans to accomplish this. Inter-entity loans require approval from the Department of Administration. PHHS had unrecorded inter-entity loans during both fiscal years under audit. Rather than obtain approval for inter-entity loans from the Department of Administration in all cases when accounting entities had negative cash balances, PHHS used the accounts Due From Other Accounting Entities and Due To Other Accounting Entities. These accounts are to be used when a vendor relationship exists between functions of state government and no such relationship existed in these instances. The amount of unapproved and unrecorded inter-entity loans during fiscal year 1995-96 was approximately $6 million and during fiscal year 1996-97 was approximately $7.5 million. The "due to" and "due from" balances for both fiscal years were cleared during fiscal year 1996-97.

PHHS should comply with inter-entity loan requirements and monitor its cash needs to avoid negative cash balances to the extent possible.

Summary

The fiscal issues discussed on pages D-70 through D-82, D-91, D-94, D-110, and D-112 clearly demonstrate that PHHS management must implement an improved financial management control structure. Correcting the errors identified in these sections will not prevent similar errors from occurring in the future. Until PHHS implements an efficient and effective financial management control structure, it has a high risk of making inappropriate financial decisions and disseminating inaccurate and misleading financial information. The tables below provide summaries of the misstatements in the PHHS accounting records.

Operating Budgets Not Allocated on SBAS

Program	Fiscal Year 1995-96	Fiscal Year 1996-97
Child & Family Services Division	$138,552,731	$145,138,094
Director's Office	2,812,980	2,497,288
Child Support Enforcement Div.	9,443,007	9,864,823
Health & Policy Services Div.	228,215,155	218,060,390
Division of Quality Assurance	4,461,770	4,684,717
Operations & Technology Div.	31,453,807	38,421,859
Disability Services Division	1	71,702,521
Senior & Long-Term Care Div.	149,591,605	151,171,639
Addictive & Mental Disorders Div.	56,272,821	72,561,587
Director's Office/Health	0	1
Central Services/Health	339,062	1
Total Not Allocated	$621,142,939	$714,102,920
Total Budget	$705,954,064	$752,739,209

Source: Compiled by the Legislative Audit Division from the Statewide Budgeting and Accounting System.

Department of Public Health and Human Services

Summary of Financial Management Issue Misstatements

			Misstatements	
Issue	Fund(s) Affected	Account(s) Affected	Fiscal Year 1995-96	Fiscal Year 1996-97
Vendor/Provider Payments, Pg. D-71	General and Special Revenue	Expenditures and Prepaid Expenses	$ 6,251	$ 5,327
		Loans Receivable and Advances		$383,032
		Benefits Expenditures - Child & Family Services Division; Loan Payable; Due from Federal Government; and Federal Revenue		$383,032
Accruals and Deferrals of Revenue, Pg. D-74	Special Revenue	Due from Federal Government		$4,206,441
		Deferred Revenue		$1,467,220
		Federal Revenue		$5,673,661
Federal Revenues and Expenditure, Pg. D-74	Special Revenue	Federal Revenue	$ 261,027	
		Other Services Expenditures - Health Policy & Services Div. and Federal Revenue		$ 6,000
Receivables and Accrued Expenditures, Pg. D-75	General and Special Revenue	Accrued Expenditures and Benefits Expenditures - Addictive & Mental Disorders Division		$ 79,820
		Accrued Expenditures and Benefits Expenditures - Addictive & Mental Disorders Division		$177,746
		Accrued Expenditures		$1,083,410
		Due from Other Accounting Entities		$2,412,590
		Accounts Receivable		$3,496,000
		Accrued Expenditures and Due to Other Accounting Entities		$2,412,590
		Accounts Receivable and Benefits Expenditures - Health Policy & Services		$841,567
		Accounts Receivable and Benefits Expenditures - Health Policy & Services		$1,874,040
Expenditure Accruals, Pg. D-76	Special Revenue	Benefits Expenditures - Health Policy & Services Division		$804,000
SBAS Mini-Coding, Pg. D-76	General and Special Revenue	Grants Expenditures - Addictive & Mental Disorders Division	$ 157,355	$5,475,510
		Cash Cutoff		$3,144,021
		Cash Cutoff		$6,059,276
Nursing Care Reimbursements, Pg. D-78	Special Revenue and Agency	Federal and Miscellaneous Revenue and Grants Expenditures - Senior & Long Term Care Division	$ 211,371	$589,407
Montana State Hospital, Pg. D-79	Agency	Property Held in Trust	$ 383	$383
Property Held in Trust, Pg. D-79	Agency	Property Held in Trust, July 1, 1995	$ 2,145	
		Additions to Property Held in Trust	$ 35,578	
		Property Held in Trust, June 30, 1996	$ 37,723	
		Reductions to Property Held in Trust	$ 160,646	$32,738
		Property Held in Trust, June 30, 1997		$4,985
Child Support Enforcement Receivables Pg. D-81	General and Agency	Accounts Receivable	$ 204,236	$249,460
Loans, Pg. D-82	Special Revenue	Loans Receivable and Payable	$6,000,000	$7,500,000
Improper Expenditure Accruals, Pg. D-91	General and Special Revenue	Accrued Expenditures and Other Services Expenditures - Operations & Technology Division		$8,000,448
		Accrued Expenditures and Other Services Expenditures - Operations & Technology Division		$11,440,515

Source: Compiled by the Legislative Audit Division.

The Committee of Sponsoring Organizations (COSO) arose as an outgrowth of the Treadway Commission (National Committee on Fraudulent Financial Reporting). The Treadway Commission recommended COSO develop a common definition of internal control and provide guidance to help management better control the organization's operations. In general, a control structure is a process designed to provide management with reasonable assurance it will achieve its objectives related to financial accountability and compliance with laws and regulations. According to COSO, components of a control structure can be classified into five categories:

1. Control environment sets the tone of an organization. It includes management's commitment to integrity and competency, placing the right people in the right jobs. Assignment of authority and responsibility provide assurance all personnel understand the organization's objectives, and how they contribute to those objectives.

2. Risk assessment provides a basis for identifying risks to achieving objectives and determining how to manage them. Risk factors include changes in the operating environment, systems, personnel or personal situations, and organizational restructurings.

3. Control activities are those policies and procedures which ensure management directives are carried out. Control activities pertain to information processing and include physical controls to safeguard assets, as well as segregation of duties which reduces the opportunities for an individual to perpetrate and conceal errors or fraud.

4. Information and communication relate to the methods and records used to record, process, summarize and report an organization's transactions. The quality of the information directly impacts management's ability to make appropriate decisions. Communication provides an understanding of individual roles and responsibilities and how they relate to the work of others. Communication includes policy and accounting manuals, memoranda, oral discussion, and management actions.

5. Monitoring is assessing the quality of a control structure over time. It requires timely response to changing factors affecting design and operation of controls. Regular management and

> supervisory activities can provide an on-going monitoring process. An internal audit function in an organization provides a separate evaluation of the design and operation of controls. External sources, e.g. clients, also provide feedback on an organization's control structure.

During the course of our audit, we observed that fiscal bureau personnel did not always know how their work interrelated with the work of others in the bureau or with other divisions. Individuals with supervisory responsibilities were often too busy with daily work to provide needed supervision and review.

PHHS officials stated, "that as a result of the department's reorganization, many of the staff are performing new duties and tasks which require the development of different skills and knowledge. Additional training and the development of documented procedures is required to assist staff with developing the knowledge and skills necessary to efficiently and effectively perform their new duties. In addition, the Fiscal Bureau is undergoing a reorganization that is intended to address many of the financial management problems experienced during the 1996-97 biennium." In addition, the fiscal bureau has not filled three vacant positions. Leaving positions vacant can lead to a breakdown in a control structure resulting in undetected errors or fraud. It also reduces the opportunities for cross-training and providing backup to key positions.

These control issues are not isolated within the fiscal bureau. The foster care issues discussed on page D-94 are also control related. In many cases, financial transactions are initiated in other divisions. This necessitates communication between those divisions and the fiscal bureau. Communication lines should be clearly delineated. Ensuring personnel know whom to contact will increase efficiency and effectiveness and reduce opportunities to create unnecessary internal bureaucracy.

The importance of management control is recognized by the Montana Constitution and statutory law, both of which mandate controls be in place to safeguard assets and provide accountability by state government. As PHHS designs and implements a financial management control structure, management should address the control components discussed above. The sections discussing the individual issues include specific suggestions for control activities which would have prevented or detected the identified errors.

We recognize there is a cost to implementing our recommendations. As of February 1998, PHHS officials estimated approximately $350,000 for consultants to work with them to identify and document current systems and procedures. This does not include PHHS personnel time to answer the consultants' questions or to address components such as control environment, management's risk assessment, or communication mechanisms. This estimate does not consider any costs associated with computer system enhancements or with enhanced monitoring although PHHS should anticipate some cost savings as the financial management control structure becomes active. For example, the amount of time spent correcting mistakes should decrease. In addition, PHHS may also incur higher personal services costs as it evaluates the skills needed to achieve its objectives and hires or trains individuals for those positions.

PHHS expenditures exceed $750 million per year. While the costs to implement an improved management control structure may appear high, they need to be analyzed against the types of errors and non-compliance discussed in this report, as well as the complexity, diversity, and magnitude of the programs for which PHHS is responsible.

Recommendation #13-1
We recommend PHHS:

A. Implement a financial management control structure to assure financial accountability and compliance with state and federal laws and regulations.

B. Comply with constitutional and statutory requirements by disbursing funds only under appropriations made by law.

Agency Response #13-1:

A. Concur. The department plans to develop a financial management control structure as recommended by completing the following projects over the next 18 months:

1. Reorganization of the Fiscal Bureau
   Reorganization of the Fiscal Bureau distributes the workload more evenly among the present staff, provides for additional review and oversight of federal reporting and accounts payable functions, provides for improved communication with division fiscal staff, and provides reengineering opportunities that will improve the efficiency and effectiveness of its operations. The reorganization process includes the revision and/or writing of appropriate position descriptions, the hiring of qualified staff to fill vacant positions, the implementation of a performance appraisal process and the establishment of a training plan for each staff person. Although the reorganization has started, implementation of all aspects of the reorganization will occur over the next 18 months.

2. Internal Controls Review
   The Audit Section of the Quality Assurance Division will perform a review of the Fiscal Bureau's internal control procedures and provide assistance in developing appropriate reconciliation processes and procedures. Although the initial review is expected to be ongoing through FYE98, implementation of recommendations is expected to continue through FY99.

3. Documentation of Policies and Procedures
   The purpose of this project is to organize, update, communicate and document the policies and procedures related to and utilized by the department's fiscal operations. This project is ongoing and expected to be completed prior to FYE99.

4. Staff Training
   This includes the development of a training plan for each individual in the Fiscal Bureau; the training plan will be incorporated into the yearly performance appraisal process.

The Fiscal Bureau will also develop training opportunities specifically directed to its staff and division fiscal personnel including an overview of fiscal year-end processes; a review of federal reporting requirements and related accounting reconciliation procedures for the General Ledger Section staff; and training in general governmental accounting. The plan for each staff person is expected to be in place by July 1, 1998.

5. Cash Receipting
   This project will review the processes and procedures for receiving and depositing cash in an effort to develop a more efficient process to ensure cash is deposited timely and accounted for properly. This project is not expected to begin until after the FYE98 process is complete and is expected to last only two to three months.

Each of these projects is a part of a larger effort to review the organization of the department's fiscal operations. This effort includes studying the fiscal operations in other departments as well as the complexities and information needs specific to a public assistance/human services type organization. The goal is to identify options as to how to most effectively and efficiently organize the department's fiscal operations and improve service while providing appropriate controls. This effort is ongoing and will incorporate implementation of the MT PRRIME project.

The department will present an action plan for each of these projects, including deliverables, time frames and estimated costs, at the Legislative Audit Committee meeting on March 27.

In addition to these financial management control type projects, the department will address other issues in this recommendation as follows:

- The department will process the transactions to correct specific accounting errors addressed in this recommendation by March 1998 month-end.

- The department is in the process of recording the operating budgets for all programs on SBAS; this process will be incorporated into the turn-around process for the next fiscal year.

- The department no longer accounts for the Eastern Montana Veterans' Home Nursing Care Reimbursements in an agency fund; it is using a special revenue fund as recommended.

- The department will work with the individual institutions and the Quality Assurance Division to establish procedures for reconciling all patient trust accounts.

- Procedures for handling escheated property have been distributed to division personnel.

- The department will change its procedures to account for child support accounts receivable in other than the agency fund and to properly record inter-entity loan transactions.

B. Partially concur. Because of the complex nature of the department's operations and the cumbersome budget amendment process, the department established the current process of writing warrants in its large systems using an advance or prepay control account. This ensures that payments to welfare recipients, other program clients and the small service providers are issued timely and not subject to extended delays due to an administrative error in the system. Although the warrants are charged to an advance or prepay control account, each system simultaneously creates a document that automatically charges the appropriate expenditures and appropriations for those warrants. This document normally processes on the same day the warrants process ensuring that the department complies with constitutional and statutory requirements.

The department agrees with the recommendation and will make every effort to change its processes in order to charge the appropriate expenditure and appropriation when warrants are issued. However, it will do so as long as the change does not create delays in issuing payments. The projects to review internal control procedures and to review the department's fiscal operations will provide an opportunity to look at other avenues for processing warrants and enable the department to ensure the proper controls are in place to eliminate errors and take care of any adjustments timely and accurately.

Improper Expenditure Accruals

At fiscal year-end 1996-97, PHHS accrued over $20 million of expenditures in the Operations and Technology Division program for anticipated fiscal year 1997-98 and 1998-99 facilities maintenance contract costs for MMIS, CAPS, TEAMS/MACCS, Virtual Human Services Pavilion (VHSP) amendments, and SEARCHS amendments. Under state law and policy, approximately $19.4 million of these expenditures should not have been accrued. The accruals caused overstatements of expenditures and liabilities, and corresponding understatements of fund balance, of approximately $8 million in the General Fund and $11.4 million in the Special Revenue Fund.

Section 17-1-102(4), MCA, states "All state agencies . . . shall input all necessary transactions to the accounting system . . . before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles, except that for budgetary control purposes, encumbrances that are required by generally accepted accounting principles to be reported as a reservation of fund balance must be recorded as expenditures and liabilities on the accounting records." The encumbrances referred to in the exception in law are commonly known as "A" accruals.

Generally accepted accounting principles require encumbrance accounting be consistent with the legally prescribed budgetary basis of accounting, and that encumbrances represent the estimated amount of expenditures ultimately to result if unperformed contracts in process at year-end are completed. Valid obligation criteria for "A" accruals is defined in state accounting policy (Management Memo 2-97-1) as follows: "Services should, as a general rule, be charged against the fiscal year in which the services will be received" and "Commitments related to unperformed, legally-binding contracts in process at year-end may be accrued." This management memo also states, when applying the valid obligation criteria to "A" accruals, ". . . agencies should first consider legislative intent. An 'A' item that complies with the valid obligation criteria, but is contrary to the original intent of the legislature when appropriations were enacted, or as amended, . . . should not be accrued."

The PHHS facilities maintenance costs are budgeted on a fiscal year basis (i.e., one fiscal year's costs are budgeted in each fiscal year). The original fiscal year 1996-97 operating plan included funding for facilities maintenance and system development. To accrue the fiscal year 1997-98 and 1998-99 contract amounts, it was necessary for the department to process significant program transfers, which more than doubled the Operation and Technology Division's "Other Services" budget. Had the legislature intended PHHS to accrue multiple years' costs, we believe it would have been evident based on the original operating plan amounts. Nothing should have been accrued at fiscal year-end 1996-97 for the fiscal year 1997-98 and 1998-99 MMIS, CAPS, and TEAMS/MACCS facilities maintenance service contracts because these services were included in the FY98-99 biennium budget approved by the legislature.

The accruals associated with the June 30, 1997 VHSP amendment ($1,000,000) and the June 12, 1997 SEARCHS amendment ($262,860) are not valid because there are no specific services identified in the amendments. Based on the language in these amendments, it would not be possible to determine if a payment should liquidate the accrual or be a current year expenditure.

Although state law provides that encumbrances must be treated as expenditures and liabilities within the accounting records for budgetary control purposes, the above service contracts and amendments should not have been encumbered or accrued. Accruing this activity circumvented the appropriations process by making available appropriation authority in the FY98-99 biennium for other uses. In effect, PHHS increased its spending authority by approximately $19.4 million for the FY98-99 biennium. Accrual of the FY98-99 biennium costs for these systems puts the department in the position of having no operation and maintenance costs in one or more fiscal years for critical ongoing operating systems. We believe this is misleading to SBAS users as well as to users of the department's financial schedules.

PHHS officials told us they accrued two years of facilities maintenance contract amounts at the end of fiscal year 1996-97 because the legislature cut the department's General Fund budget for the FY98-99 biennium by $4 million. They noted that by shifting an additional year of expenditures to fiscal year 1996-97, they could restore these cuts. HB 356, which would have eliminated the department's ability to record "A" accruals, was tabled by the Appropriations Committee on February 12, 1997, after PHHS accepted the $4 million cut. PHHS officials told us they believe the legislature's intent was for the department to use available fiscal year 1996-97 appropriation authority for expenditures that would otherwise have been recorded during the FY98-99 biennium.

State law and accounting policy regarding accruals did not change and PHHS should have complied with those requirements. PHHS personnel believed they met the requirement that the accrual be in accordance with legislative intent because they stayed within their appropriation limit (as revised by program transfers which are permitted by state law). PHHS personnel suggested accounting policy regarding accruals may need clarification.

Recommendation #13-2
We recommend PHHS:

A. Accrue expenditures in accordance with state law and policy.

B. Revert $8,000,448 to the General Fund and $11,440,515 to the Federal Special Revenue Fund.

Agency Response #13-2:
A. Concur. The department felt that it had complied with the intent of the legislature and state policy when it accrued the expenditures for the development of and enhancements to its various operating systems. Accruing FY98 expenditures in FY97 was consistent with the practice of the previous four years. The department will work with the Department of Administration to clarify "valid obligation

criteria" in state accounting policy and to ensure that future contracts meet appropriate standards before accruing related expenditures.

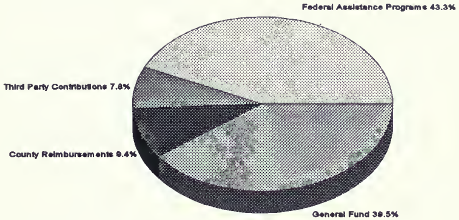
B. Concur. PHHS has processed the journal entries to revert the authority accrued for these expenditures at FYE97.

Foster Care

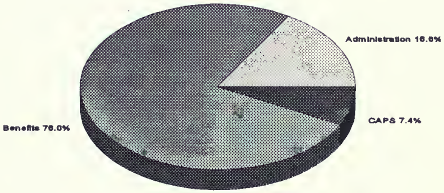
PHHS administers the foster care program. Foster care is the full-time care in a residential setting (to provide food, shelter, security and safety, guidance, direction, and if necessary, treatment) of youth who are removed from or are without the care and supervision of their parents or guardian.

Foster care is funded through the state General Fund, county reimbursements, federal assistance programs (primarily Foster Care Title IV-E, CFDA #93.658), and third party contributions (e.g., Social Security, Supplemental Security Income, retirement benefits, and child support payments) made on behalf of specific youth. Foster care expenditures include administrative costs and the development and operation of the Child and Adult Protective Services System (CAPS), as well as payments to foster care providers. According to SBAS, PHHS spent over $22 million to operate the foster care program in fiscal year 1996-97. The sources of funding and types of costs during fiscal year 1996-97 were as follows:

Fiscal Year 1996-97 Foster Care Funding
Percent by Source



Fiscal Year 1996-97 Foster Care Expenditures
Percent by Type



CAPS

CAPS is a computerized information system designed to support the social services programs administered by the department's Child and Family Services Division. CAPS processes information for child and adult protective services, services to the aged, and services to juvenile corrections. CAPS was developed to meet federal requirements for a statewide automated child welfare information system and an adoption and foster care analysis and reporting system. In addition, the department desired automated access to workload and caseload management information and statistics. The system is designed to initiate payments for services; provide subsidiary detail support for third party contributions, charges, and balances for individual youth trust accounts; and interface with SBAS to record the financial activity.

CAPS is intended to increase productivity, improve staff utilization, reduce manual functions and processes, and improve case management by employees responsible for child welfare services and adoption and foster care activities. The CAPS project was initiated on November 1, 1993, and statewide implementation concluded for all but the trust account module in July 1996. PHHS converted its trust account balances to CAPS in February 1997.

When a youth is placed in the state's custody, a social worker is assigned to gather intake information regarding the youth's needs, whether there are third party resources available to pay for the youth's care, and whether the youth is eligible to receive foster care benefits under various federal programs. The case worker is responsible for placing the youth with an appropriate provider and, if necessary, setting up a treatment plan. This intake information is entered on CAPS, either by the case worker or clerical staff. Case workers update information as the case progresses.

Based on this information, CAPS initiates payments on state warrants to licensed providers at approved rates for the youth's care. The financial activity resulting from these payments and any subsequent corrections are automatically posted to SBAS based on the eligibility codes on CAPS and third party amounts available in the youth's trust account, if any. PHHS uses the financial activity recorded on SBAS to bill the federal government and counties for their share of the foster care payments. The following sections discuss concerns we have regarding controls over and the accuracy of foster care financial information on CAPS and SBAS.

Funding Sources Errors for Foster Care

We found evidence of foster care funding source errors during our Electronic Data Processing (EDP) audit of CAPS (#97DP-06) and during financial-compliance audit testing of the foster care program. To comply with state financial management and federal foster care requirements, PHHS must improve its automated and manual controls and procedures to properly account for financial activity related to foster care.

EDP Controls

During our prior audit of the Department of Family Services (DFS), we reported ten issues related to foster care. Department personnel told us CAPS would resolve many or most of the problems related to six of these issues. We cautioned department personnel they were at risk of automating manual processes that were not adequately controlled and suggested they implement adequate controls for these processes regardless of automation.

During our current audit, we found PHHS had not implemented three, partially implemented two, and implemented one of the six recommendations management thought CAPS would solve. For the recommendation that was implemented, we found PHHS implemented CAPS, a system to ensure Title IV-E foster care payments are made on behalf of eligible clients in accordance with federal regulations. However, during our EDP audit of CAPS, we concluded CAPS applications controls were not adequate due to data input, funding source, and system output reliability issues.

The EDP audit report contains 12 recommendations to PHHS addressing concerns related to development, user access, programmer access, accuracy of data entry, correction and resubmission of data entry errors, services requiring justification, case notes not included on-line, approval for services, eligibility determination (including funding source code assignments and system generated adjustments), reports for reconciling CAPS to SBAS, and Department of Corrections and youth court issues. We relied on the results of the EDP audit and built on that work to meet financial-compliance audit objectives.

Our EDP CAPS audit identified several issues indicating there are funding source errors on SBAS transactions related to foster care. There are also overstatements or understatements of financial activity due to overpayment, lack of documentation, lack of separate approval, untimely error correction, incorrect data, and system edit issues. Due to the inadequate application controls discussed in the EDP report, it was not practical to quantify the effect of the errors resulting from these issues. PHHS had identified $116,979 of funding source errors occurring prior to June 30, 1997, which had not processed by July 28, 1997. It is likely there were other errors which had not been identified at that time.

In general, these errors occurred due to flawed CAPS system development, inadequate user acceptance testing, and errors in the conversion process. This resulted in significant change requests, the costs of which passed to the facilities maintenance contract. These change requests are prioritized by a 41-member committee of users, with heavy representation from social workers in field offices. Because the committee operates with a democratic one-person one-vote process and has no established criteria for ranking proposed changes, priorities are not necessarily established appropriately from a department-wide perspective. The restructuring of DFS into PHHS may have created a staff resource problem that affected these processes, particularly timely user acceptance testing. PHHS personnel told us the Child & Family Services Division has no vacant positions and needs more resources to get the backlog of corrections made.

Recommendation #13-3
We recommend PHHS prioritize change requests based on a department-wide perspective of needs.

Agency Response #13-3:
Concur. The department will implement new processes to ensure that the CAPS change control process adequately reflects

department-wide priorities. The process changes include how the Child and Family Services Division (CFSD) prioritizes its requests that are forwarded to the change control process managed by the Operations and Technology Division.

CFSD will implement a division user group that integrates management priorities with field user priorities. The user group will be comprised of a representative cross section of CAPS users and program managers. The group will adopt, in conjunction with division managers, division wide priorities that will be used in the process to rank division requests for the CAPS change control process.

Shortly after CAPS implementation, CFSD reallocated work tasks to dedicate 1.0 FTE to division CAPS functions. The CAPS liaison for CFSD will manage, negotiate, and coordinate CFSD processes with respect to CAPS. The CAPS liaison also will work to ensure that the following occur on all future development, maintenance, and enhancement activities:

1. CFSD priorities are understood and integrated into the change control process;
2. sufficient resources and priority are established for user acceptance testing in order to ensure system design and processing results satisfy user expectations;
3. user acceptance testing is completed prior to final acceptance of major system changes and enhancements; and
4. system changes are prioritized and ranked appropriately with the aid of effective measurement tools.

Fiscal bureau staff are working in conjunction with CFSD, the department's External Systems Bureau, and BDM to ensure that accountability needs and priorities are addressed from a department-wide basis. Representatives from each of these groups meet bi-weekly to discuss issues related to the financial management processes in CAPS including the status of system enhancements, production problems and potential solutions, additional changes to improve the functionality and reliability of the financial processes, and the prioritization of these changes and enhancements. These priorities are incorporated into the change control process when appropriate.

Overpayments

We reviewed five documents containing transactions to reduce foster care expenditures recorded on SBAS during fiscal years 1995-96 and 1996-97. During this review, we observed $189,233 of refunds of foster care payments made to providers for services provided as far back as October 1993. These refunds occurred because the foster care program paid for services for which Medicaid or other sources also paid and overpaid for services due to CAPS programming errors and incorrect use of CAPS by foster care staff.

Most of the refunds were initiated by the overpaid providers, and not by PHHS. It is likely the department has overpaid providers who have chosen not to tell PHHS and refund the overpayment. When PHHS becomes aware of an overpayment to a provider, it reduces payments to the provider by a set monthly amount, rather than offsetting the full amount of the overpayment before making another payment to the provider.

All five refund documents tested recorded refunds to incorrect cost centers on SBAS. PHHS personnel indicated refunds do not get recorded to the correct accounts receivable subsidiary detail ledger numbers on SBAS and that refunds have not been credited to trust accounts and billings for county reimbursements on SBAS for two to three years. The correct accounts need to be used so SBAS records accurately reflect financial management information in accordance with state law and so amounts can be appropriately billed or returned to others. Incorrect coding of cost centers can cause the refund to be split incorrectly between state and federal funds, resulting in noncompliance with federal matching requirements for the foster care program.

PHHS should establish control procedures to prevent and identify overpayments and to maximize collection of overpayments in a timely manner. PHHS implemented a procedure, as recommended in the prior audit, to have the Addictive and Mental Disorders Division send weekly Medicaid certification/decertification updates to the regional offices. This procedure was in place until Mental

Health Managed Care started in April 1997. Since then, there has not been a department-wide procedure for preventing or detecting foster care payments to providers for services covered by Medicaid.

Recommendation #13-4

We recommend PHHS establish adequate manual and automated procedures to:

A. Prevent and detect overpayments to foster care providers.

B. Ensure proper recording of refund receipts.

Agency Response #13-4:

A. Concur. CFSD identified overpayments in the CAPS system and began requesting periodic ad hoc reports in April 1997 to help identify and research potential overpayments. As CFSD staff determine why or how overpayments occur, they are taking corrective actions. CFSD has requested system changes when necessary. For example, CFSD requested certain error messages be printed on daily CAPS reports to alert staff to investigate potential overpayments. CFSD has requested an enhancement to CAPS that would allow overpayments to be deducted from future payments to a provider. Currently, CAPS cannot withhold an overpayment from future payments unless the payment is for the same service and the same child. Also, CFSD has notified division staff in writing and provided explanations as to how overpayments can be created. For example, not closing a service in a timely manner can cause an overpayment. CFSD is providing additional training for staff, when necessary, to reduce and eliminate overpayments.

The department implemented processes to prevent and identify overpayments related to services covered under the Medicaid program prior to the implementation of the Mental Health Access Plan managed care contract in April 1997. After implementation of managed care, CFSD initiated the establishment of a new process to identify and prevent overpayments. CFSD recently received the first written report from the managed care contractor that it can use to identify potential overpayments. The report lists client services that could have been paid by both the managed care contractor and

CFSD. CFSD will continue to exchange information with the managed care contractor, with the goal of instituting a regular reporting process of potential overpayments.

CFSD continues to pursue collection of overpayments. CFSD identified a number of overpayments and has written to providers requesting that they remit a check to the department. If the provider requests that the department accept monthly payments rather than immediate reimbursement in full, the CFSD generally allows providers that flexibility. Repayment agreements are often necessary because requiring immediate reimbursement in full would place a financial hardship on the provider.

B. Concur. In August 1997, a system enhancement to the CAPS system was implemented that created a new screen and posting process that enables refunds to be posted to the correct responsibility center.

Noncompliance with Federal Matching Requirements

Most of the federal funds in the foster care program are from the Foster Care Title IV-E Program (CFDA #93.658). Federal regulations for this program permit federal financial participation at the rate of the federal medical assistance percentage for foster care maintenance and adoption assistance payments, which was 69.01 percent during federal fiscal year 1997; 75 percent for the costs of training personnel employed or preparing for employment by the State or local agency in administering the plan; and at 50 percent for administrative expenditures necessary for the proper and efficient administration of the plan. Development costs of CAPS were approved at a 75 percent federal participation rate, but allowable CAPS operating costs are limited to the 50 percent federal participation rate for administration. We found charges to the Foster Care Title IV-E program were not properly allocated between state and federal funds during fiscal years 1995-96 and 1996-97.

We calculated the state and federal share of expenditures recorded on SBAS for each cost center included in the federal foster care accounts at fiscal year-end 1995-96 and May 31, 1997, and for five of the largest cost centers at fiscal year-end 1996-97. Eight of sixty-eight foster care cost centers at fiscal year-end 1995-96 were not in the proper state/federal ratio. Five of the eighty-seven centers at May 31, 1997, were not in the proper state/federal ratio at both May 31 and fiscal year-end 1996-97. We also found one of the five high dollar cost centers tested at fiscal year-end 1996-97 was not in the proper state/federal ratio, although it had been in the proper ratio at May 31, 1997.

As a result of these errors, federal funds were overcharged a net of $33,346 in fiscal year 1995-96. Federal funds were undercharged a net of $24,390 in fiscal year 1996-97. The net effect for the biennium was an $8,956 overcharge of federal funds and undercharge of state funds. Therefore, we question $8,956 in charges to the federal government.

Because the centers are set up to automatically split costs between federal and state funds in the appropriate ratio if the expenditures are properly recorded, it is possible the errors occurred when transactions were recorded incorrectly or if the centers were not set up with the correct automatic cost split rates. Based on discussions with PHHS personnel, the department's priority has been to complete CAPS development and implementation, so they have not had as much time as usual to monitor and review accounting records to identify and correct errors. They indicated the Child and Family Services Division is understaffed, and does not have budget authority to hire more people. PHHS personnel could identify and correct these errors in a timely manner if they reconciled CAPS to SBAS and reviewed cost center information monthly. The cost to implement this recommendation is addressed in the financial management issue summary beginning on page D-82.

Recommendation #13-5

We recommend PHHS review and reconcile monthly accounting records for the Foster Care Title IV-E program and make appropriate corrections and procedure changes to ensure charges are properly allocated to state and federal funds.

Agency Response #13-5:

Concur. CFSD fiscal staff are aware of the need to review responsibility center attributes and attempt to do so as frequently as possible. CFSD has reassessed job duties in the Operations and Fiscal Services Bureau in an effort to prioritize and maximize functions, which can be accomplished with limited staffing. This assessment resulted in the assignment of a full FTE to foster care and children's services program budgeting and financial management responsibilities. This change will allow the division to be more proactive and efficient in the budgeting and financial management area. CFSD staff began reviewing IV-E related responsibility center attributes monthly in February 1997. It should be noted that the $8,956 of questioned costs are less than 1% of the funds received from this federal program.

Subsidiary System Reconciliations to SBAS

In previous audits of DFS, we recommended the department "reconcile SBAS and its foster care database on a timely basis to ensure financial information on the state's accounting records is accurate and complete." As of January 7, 1998, CAPS and the former foster care database (client database) have not been reconciled to SBAS. PHHS personnel attempted to reconcile for fiscal year 1994-95 but were not completely successful. There are significant differences between the subsidiary foster care systems and SBAS. For example, the Property Held in Trust balance on SBAS exceeded the total of the balances on the trust account subsystem by $240,644 at January 31, 1997; $93,891 at June 30, 1997; and $147,371 at December 31, 1997.

Because the client database cannot be adjusted, and adjustments are made to SBAS, the systems do not agree. Adjustments initiated by PHHS personnel or generated by CAPS can be made to CAPS and may or may not be recorded on SBAS. PHHS must reconcile the foster care subsidiary systems and SBAS to identify and determine the causes of the differences. PHHS must reconcile the databases to SBAS by funding source to ensure the amounts charged to federal programs are supported by the detail records on the databases.

Once these differences have been isolated, corrections can be made to ensure both sets of records are accurate and complete. Any system or procedural problems identified by the reconciliation can be corrected to prevent similar problems in the future. Federal regulations require all federal charges be supported by the accounting records. Because we cannot verify the validity of the subsidiary subsystems as support for SBAS, we do not know if federal reports, which are based on SBAS amounts, are accurate and complete.

During the prior audit of DFS, agency personnel told us CAPS would provide the detail necessary to perform a reconciliation with SBAS. During the current audit, PHHS personnel told us they have not reconciled CAPS and the client database to SBAS because they did not have the information detail they need from CAPS to do so. They told us the necessary reports were included in the original design of CAPS but were later dropped. We reviewed the CAPS General System Design Document and found it contained one paragraph concerning reconciliation. This paragraph does not discuss the need for reports of all CAPS transactions to complete reconciliations of CAPS to SBAS.

A PHHS official told us the reports containing the information necessary to reconcile CAPS to SBAS were available in June 1997 for current, but not prior, transactions. PHHS personnel told us they received reports in September 1997 which provided the detail necessary to reconcile fiscal years 1995-96 and 1996-97 SBAS financial activity initiated by CAPS transactions. However, they said these reports contain no information regarding CAPS transactions which did not initiate SBAS activity.

PHHS personnel have a procedure to reconcile batches of transactions input to the trust account subsystem to transactions processed on SBAS each month to ensure all transactions that should have processed did process on each system. This reconciliation was last done for June 1996. We reviewed the reconciliation completed for October 1995 and found it was not adequate to accomplish its purpose. The reconciliation contained items in the batch listing that were not traced to SBAS and not treated as reconciling items; reconciling items that were on both the batch list and SBAS for the same amount, and therefore were not legitimate reconciling items;

differences in dollar amounts between the batch list and SBAS which were not treated as reconciling items; reconciling items that were not supported; and addition errors. While the reconciliation appeared to balance, it did not. The reconciliation was not reviewed by the preparer's supervisor, although the preparer is also responsible for processing foster care and trust account activity on the client database and its associated Trust Account Management System (TAMS), CAPS, and SBAS.

PHHS personnel told us these reconciliations were suspended because the employee who was responsible for preparing them took on the responsibilities of an employee who resigned, including a backlog of six to eight months of foster care charges and at least two or three years of credits which had been recorded on SBAS and TAMS but which had not been recorded on the client database. The cost of implementing this recommendation is included in the financial management issue summary beginning on page D-82.

Recommendation #13-6
We recommend PHHS:

A. Implement effective procedures for reconciling SBAS and its subsidiary foster care systems on a timely basis to ensure financial information on the accounting records is accurate and complete.

B. Ensure the ability to reconcile to the accounting records is included in the design of all systems which are intended to support those records.

Agency Response #13-6:

A. Concur. Fiscal Bureau staff continue to work with the programming staff at BDM to obtain all the data necessary to complete the reconciliation of CAPS to SBAS. The need for the additional detail information on CAPS transactions that do not initiate SBAS activity and corrections that need to be made in reports previously produced have delayed the reconciliation process. The reports are expected to be rerun and the additional information available to begin the reconciliation process in March. This process is being coordinated through the CAPS liaison position and will be reviewed by the Quality Assurance staff in their Internal Control Review project.

B. Concur. The department will ensure that internal controls and important fiscal accountability processes and procedures, such as reconciliation procedures, are incorporated in the design of future systems or the redesign of current systems.

Inadequate Segregation of Incompatible Trust Account Functions

State policy acknowledges agency management is responsible for establishing and maintaining a system of internal controls over collections and deposits. Montana Operations Manual section 2-1210.00 states: "No one person should perform incompatible functions. Incompatible functions place an employee in a position to perpetrate and conceal errors or irregularities in the normal course of their duties. If feasible, functional responsibilities of record-keeping, authorization, operations and custodianship should be separated." While performing testing of foster care trust accounts, we observed PHHS management had assigned incompatible functions to a fiscal bureau employee responsible for foster care trust accounts.

From late May 1997 until we identified the incompatible duties and expressed our concerns to PHHS personnel in December 1997, an accounting technician was responsible for opening mail and listing trust account receipts, preparing the related deposit ticket and SBAS collection report, and taking the deposit to the State Treasury Unit. This employee is also responsible for recording individual trust account activity on the trust account subsystems and SBAS and reconciling the trust account subsystems to SBAS. After we discussed this issue with the employee's immediate supervisor, the responsibility for logging the trust account receipts was shifted to another person. After we further discussed this issue with PHHS personnel, the responsibility for opening mail containing trust account receipts was also shifted. Currently, the technician receives the checks and the check log, after the check log is prepared by another employee, and uses them to post to individual trust accounts and to complete the deposit process. No one makes sure everything listed on the original check log is included in the deposit.

According to PHHS personnel, the employee who logged receipts prior to May 1997 did not have enough time to log trust account checks. About 300 checks are received for foster care youth at the beginning of each month and an additional 100 checks come in throughout the month. The accounting technician was assigned these responsibilities because she is the one who needed the check information to post receipts to the trust account subsystems and prepare the deposit. The technician was assigned responsibility for recording trust account financial activity on SBAS when another employee left. Because she is the person most familiar with the trust accounts, she could pick up the additional work more easily than other employees.

In addition to inadequate segregation of duties, this combination of employee turnover and reassignment of responsibilities has created a situation where there are few people who are familiar with recording foster care trust account activity, so there is little or no backup when the accounting technician is gone. PHHS management should evaluate job duties, provide adequate segregation of responsibilities, and ensure backup exists for key positions.

Recommendation #13-7
We recommend PHHS:

A. Evaluate and reassign Fiscal Bureau staff responsibilities to eliminate incompatible functions and strengthen controls.

B. Ensure backup exists for key positions.

Agency Response #13-7:

A. Concur. The Fiscal Bureau has reassigned tasks so an appropriate segregation of duties exists in this area.

B. Concur. The Fiscal Bureau has established backup for key positions and will incorporate a review of job duties and staffing requirements in a review of the CAPS processes as well as the review of the department's fiscal operations.

Trust Account Investment Earnings Concerns

During our audit period, PHHS invested $277,100 from the foster care trust accounts in the state's Short-Term Investment Pool (STIP), from which PHHS receives investment earnings monthly. PHHS's subsidiary trust account systems distribute these earnings to individual trust accounts based on the month-end balances in each individual's trust account. Many of these account balances were not correct at month-end. Much of the remaining trust account money, $648,675 and $175,067 at June 30, 1996 and 1997, respectively, is classified as Cash in Treasury, which is invested by the Board of Investments for the state treasurer. The investment earnings from this money are deposited in the state's General Fund. Because the amount invested in STIP has not changed, investment earnings to the trust accounts (approximately $16,200 during fiscal year 1996-97) were not maximized.

Until PHHS converted to the CAPS trust account module in February 1997, many trust accounts for children were maintained on the old client database TAMS system. There was no interface between the systems, so charges for cost of care which normally would have been paid by the children's accounts could not be made against the trust accounts. This inflated these children's trust account balances until the accounts were converted to CAPS and the accumulated cost of care charges were deducted from the accounts.

We believe the amount of time required to design, implement, and monitor an equitable investment strategy for trust accounts exceeds the benefits to be derived. PHHS should liquidate the STIP investment and allocate the proceeds to the individual trust accounts which contributed to the STIP investment. In the event there are unclaimed or unidentified proceeds, they should be placed in PHHS's escheated property account.

Recommendations #13-8

We recommend PHHS liquidate the foster care trust account STIP investment and allocate the proceeds to the appropriate individual trust accounts.

Agency Response #13-8:
Do not concur. The department would like to continue to invest the available trust funds in STIP since they do earn interest that offsets the amount of general fund money used to pay for the care of these foster children. The fiscal bureau staff will work with the quality assurance staff to develop a system to maximize interest earnings while minimizing the level of effort required to continue investing these funds.

Unreconciled Child Support Payments

Child Support Enforcement Division (CSED) personnel are responsible for collecting and distributing absent parent child support payments to custodial parents. When custodial parents receive assistance from the Aid to Families with Dependent Children (AFDC) program (Family Support Payments to States-Assistance Payments CFDA #93.560) they must assign their child support payments to the department. Until October 1, 1996, regulations allowed custodial parents who assigned their child support payments to PHHS to receive $50 from each payment in addition to their AFDC assistance. PHHS used the balance of the payment to defray the cost of the AFDC program.

CSED personnel use the SEARCHS computer system to monitor the child support payments received. This system compiled a listing of custodial parents authorized to receive the $50 payment. This information was then used by the TEAMS computer system to generate the payments to custodial parents. The amount paid to the custodial parents frequently differed from the amount authorized.

In our prior audit of the Department of Social and Rehabilitation Services, we reviewed CSED procedures and determined personnel did not reconcile any differences between the two computer systems. Even though PHHS concurred with our audit recommendation, procedures have not been established to ensure differences are identified and properly resolved. As a result, the accounting records contain a negative accounts payable balance of $36,269 at June 30, 1997. Based on our review of SBAS subsidiary ledgers, this balance resulted from unreconciled differences which occurred as far back as fiscal year 1993-94. These differences are outlined in the following table.

Composition of Child Support Accounts Payable
As of June 30, 1997

Fiscal Year	Positive(Negative) Outstanding Payables
1993-94	$(19,404)
1994-95	5,139
1995-96	(68,268)
1996-97	46,264
Total Unreconciled Balance at June 30, 1997	$(36,269)

Source: Compiled by the Legislative Audit Division from the Statewide Budgeting and Accounting System.

The table illustrates the unreconciled balances remaining since fiscal year 1993-94. These unreconciled balances have accumulated to a net negative $36,269 account payable on SBAS at June 30, 1997. This negative balance indicates PHHS potentially distributed more funds to custodial parents than was appropriate. According to PHHS personnel, reconciliation of the two systems has not been completed because it takes extensive time and effort. The cost of reconciling these systems is considered in the financial management issue summary beginning on page D-82.

The potential exists for families to be underpaid or overpaid if CSED personnel do not perform timely reconciliations. In instances where an overpayment occurred, the ability to collect the overpayment may be limited depending on whether the recipient is still participating in the program. PHHS personnel should establish procedures to ensure CSED personnel work with personnel from the TEAMS system to ensure custodial parents receive the proper benefits and the accounting records reflect the appropriate amount of payments made each month.

Recommendation #13-9

We recommend PHHS promptly reconcile and properly resolve the differences between payments authorized by SEARCHS and payments made by TEAMS.

Agency Response #13-9:
Concur. The transactions required to reconcile these two systems for the difference resulting from the disregards have been processed. These differences did not occur after October 1, 1996.

Schedule of Federal Financial Assistance

PHHS fiscal personnel prepare a Schedule of Federal Financial Assistance (SFFA) each fiscal year. The schedule reports expenditures of federal funds listed by Catalog of Federal Domestic Assistance (CFDA) number. The Governor's Office compiles agency SFFA information into a single SFFA for the state of Montana. We audit and express an opinion on the state of Montana SFFA in our biennial Single Audit report.

Federal regulations require the recipients of federal assistance to report all federal financial assistance expended each fiscal year. The regulations require the state, including PHHS, to accurately report the expenditures for each assistance program by CFDA number. The expenditures for federal programs must be supported by SBAS.

During the past three audits of the Department of Social and Rehabilitation Services, we identified errors and omissions on the department's schedules of federal financial assistance. During the current PHHS audit, we identified similar errors on the SFFA submitted to the Governor's Office. The following paragraphs describe the errors.

We verified all of the information reported on the fiscal year 1996-97 SFFA. Of the 119 items included on this schedule, seven contained incorrect CFDA numbers, 19 had incorrect expenditure amounts, and one had an incorrect federal program name identified. The expenditure amount misstatements ranged in size from $5,978 to $3,604,900. We identified four additional programs with expenditures totaling $85,807, which PHHS personnel had not included on the SFFA. We noted similar errors on the fiscal year 1995-96 schedule.

The errors we noted could have been detected and prevented by adequate supervisory review procedures and by reconciling federal reports to SBAS. PHHS should establish procedures to ensure the accuracy and completeness of the amounts reported on the SFFA. These procedures should include timely verification that federal reports agree to SBAS. Differences should be researched and either corrected or documented if it is appropriate for the difference to exist.

Recommendation #13-10

We recommend PHHS establish review procedures to ensure an accurate and complete Schedule of Federal Financial Assistance is submitted to the Governor's Office.

Agency Response #13-10:

Concur. The reorganization of the Fiscal Bureau, including the addition of supervisory staff to the General Ledger and Financial Reporting Section and the filling of vacant positions, should provide the resources necessary to provide adequate review of the fiscal year-end information before it is submitted to the Governor's Office to be included in the Schedule of Federal Financial Assistance. In addition, reconciliation of the federal reporting information to SBAS is being done monthly. This along with a restructuring of the cost allocation process at fiscal year-end so information is available timely should ensure that accurate and timely information is sent to the Governor's Office.

Other Federal Compliance Issues

PHHS receives financial assistance from several federal agencies including the U.S. Departments of Agriculture, Education, Energy, Health & Human Services, Justice, and Veterans' Affairs. PHHS expended approximately $490 million in federal financial assistance during fiscal year 1996-97. We performed tests to determine PHHS's compliance with selected federal regulations. We identified the following areas where PHHS could improve procedures to comply with federal laws and regulations.

Cash Management

The Cash Management Improvement Act of 1990 (CMIA) required the U.S. Secretary of the Treasury to enter into agreements with the states to establish terms and conditions for cash management for certain federal grant programs. The agreement with the state of Montana took effect on July 1, 1993. Several of the federal programs administered by PHHS are subject to the requirements of the agreement. For these programs, PHHS must draw funds based on a warrant clearance pattern established by the Montana Department of Administration. The clearance pattern is an estimate of the amount of time required for warrants to clear the bank. Drawing funds in accordance with the established clearance pattern provides assurance federal cash is appropriately managed.

For grants not subject to the requirements of the CMIA, federal regulations require PHHS to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of these funds. Cash should be drawn only in amounts necessary to meet immediate cash needs or to cover program disbursements already incurred.

We reviewed PHHS's procedures for requesting and expending federal funds in accordance with the CMIA and other applicable federal cash management regulations. The following paragraphs describe instances of noncompliance identified during our review.

Federal officials suspended certain federal government operations in the fall of 1995 due to disagreement over the proposed federal budget. Due to continued disagreement over the proposed budget, officials threatened to suspend federal government operations again in both January and March of 1996. In anticipation of the January and March suspensions, PHHS officials directed personnel to draw federal funds in excess of immediate cash needs to ensure availability of funds for certain federal financial assistance programs. The following table outlines the cash draws made in January and March 1996. PHHS officials told us the $46 million in excess cash drawn in January 1996 was returned within three days after receipt.

Federal Cash Requested in Excess of Immediate Need

CFDA #	Program Name	January 1996	March 1996	Total
U.S. Department of Health and Human Services				
93.044	Aging Support Services		$ 454,110	$ 454,110
93.119	Mental Health Statistics		30,000	30,000
93.125	Mental Health Plan & Demo Project		60,000	60,000
93.150	Homeless Block Grant		30,000	30,000
93.279	Alcohol and Drug Abuse Data Contract		20,000	20,000
93.560*	Aid to Families with Dependent Children	$ 4,239,429	1,003,065	5,242,494
93.561*	Jobs Opportunity & Basic Skill Training	400,000	649,142	1,049,142
93.563*	Child Support Enforcement	500,000	500,000	1,000,000
93.568*	Low Income Home Energy Assistance Program	1,500,000	826,965	2,326,965
93.569	Community Services Block Grant		257,500	257,500
93.575	Child Care & Development Block Grant	800,000	481,604	1,281,604
93.656	Temporary Child Care & Crisis Nurseries		136,930	136,930
93.667*	Social Services Block Grant	383,940	855,847	1,239,787
93.674	Independent Living		966,386	966,386
93.778*	Medicaid	38,260,946	36,067,531	74,328,477
93.958	Mental Health Block Grant		100,000	100,000
93.959	Prevention and Treatment of Substance Abuse		380,000	380,000
93.991	Preventative Health Services		35,000	35,000
93.994	Maternal Child Health Block Grant		100,000	100,000
	Subtotal	46,084,315	42,954,080	89,038,395
U.S. Department of Education				
84.126*	Vocational Rehabilitation		500,000	500,000
84.128	Handicapped Migratory		2,000	2,000
84.169	Independent Living		75,000	75,000
84.181	Early Intervention		500,000	500,000
84.224	State Grants for Assistance Technology		50,000	50,000
84.265	In Service Training		20,000	20,000
	Subtotal		1,147,000	1,147,000
U.S. Department of Agriculture				
10.551	Food Stamps		6,000	6,000
10.557*	Women, Infants, and Children		245,966	245,966
10.558*	Child Nutrition and Food		481,000	481,000
10.561*	Food Stamp Administration	200,000		200,000
10.569	Food Commodities	100,000		100,000
	Subtotal	300,000	732,966	1,032,966
U.S. Department of Energy				
81.042	Weatherization Assistance		350,000	350,000
	Subtotal		350,000	350,000
Social Security Administration				
96.001*	Social Security - Disability Insurance		193,363	193,363
	Subtotal		193,363	193,363
U.S. Department of Housing and Urban Development				
14.231	Emergency Shelter		100,000	100,000
	Subtotal		100,000	100,000
	Total	$46,384,315	$45,477,409	$91,861,724

* Program is subject to the requirements of the Cash Management Improvement Act.

Source: Compiled by the Legislative Audit Division from PHHS records.

PHHS did not comply with the CMIA and other federal regulations applicable to the management of federal cash because the draws either were not made in accordance with the clearance patterns established in the CMIA or were in excess of immediate cash needs. Similar cash management issues were addressed in the prior audits of the Departments of Social and Rehabilitation Services, Family Services, and Health and Environmental Sciences.

The CMIA requires the state to calculate the amount of interest lost to the federal government as a result of drawing excess cash for the federal programs covered by the state's CMIA agreement. A department official familiar with the state's CMIA agreement told us the interest rate used for the calculation was 5.31 percent. This rate was similar to the treasury fund yield which was approximately five percent in fiscal year 1995-96. In effect, the state paid about the same amount of interest it earned on the excess cash. The state paid the federal government $380,330 for PHHS excess cash draws in fiscal year 1995-96, $343,391 of which was for excess cash draws in the Medicaid program. PHHS should comply with federal laws and regulations applicable to proper management of federal cash.

Recommendation #13-11

We recommend PHHS comply with the Cash Management Improvement Act and other federal regulations applicable to the management of federal cash.

Agency Response #13-11:

Partially concur. The department requested funds early in order to ensure welfare recipients and providers of services would be paid in the event of a federal "shutdown". As soon as it was determined that a shutdown was not imminent and payments were not jeopardized, the excess drawdown amounts were returned to the federal government. The $46 million drawn in January was returned within three days after receipt. The interest rate earned on the State Treasurer's account in FY96 was 5.45%; the interest rate used for the payment to the feds was 5.31%. The state treasury earned approximately $11,460 in excess of the amount of interest paid back to the federal government for funds subject to the requirements of the Cash Management Improvement Act (CMIA). This calculation does not include the additional interest earned by the state treasury on other grant monies drawn early that are not subject to the CMIA.

Subrecipient Monitoring

PHHS contracted with another state agency to provide nutrition education to participants in the Food Distributions on Indian Reservations (CFDA #10.567) program. PHHS advanced the entire fiscal year 1995-96 contract amount of $118,522 to the contractor. Although the contract required the contractor to submit quarterly financial status reports, PHHS did not enforce this requirement. These reports were not submitted to PHHS until May 1997 when we inquired about them. According to the contractor's report for the quarter ended June 30, 1996, the contractor expended only $114,364 of the advance. In May 1997, the contractor sought permission to apply the unexpended balance of $4,158 to the fiscal year 1996-97 contract. There is no formal documentation that PHHS personnel consented to the contractor's request.

The Single Audit Act requires PHHS to monitor subrecipients of its federal financial assistance programs. In addition, federal regulations indicate that to be allowable, costs must be incurred in the grant award period. Had the contractor been properly monitored, PHHS personnel would have determined in a timely manner that the grant award was not fully expended and that the contractor had not complied with applicable reporting requirements. Because PHHS did not clearly authorize the contractor to carry the excess funds over to the next grant period, the use of the funds by the contractor is not allowable. Therefore, we question $4,158 of expenditures charged by PHHS to the Food Distributions on Indian Reservations program. PHHS personnel should seek reimbursement of the $4,158 from the contractor and reimburse the federal government.

Recommendation #13-12
We recommend PHHS:

A. Establish procedures to ensure compliance with federal laws and regulations related to subrecipient monitoring.

B. Seek reimbursement of the $4,158 from the contractor.

C. Reimburse the federal government $4,158.

Agency Response #13-12:
A. Concur. The Intergovernmental Human Services Bureau does have procedures related to contract monitoring of subrecipients. The procedures were not followed in this case, but will be for subsequent related contracts.

B. and C. Concur. The Intergovernmental Human Services Bureau will seek reimbursement of $4,158 from the contractor and return this money to the federal government.

Debarred and Suspended Parties

The federal government has designated certain vendors and contractors as ineligible for participation in federal financial assistance programs. Federal regulations prohibit PHHS from contracting with these debarred and suspended parties. We reviewed PHHS's procedures for complying with these regulations and determined procedures are adequate for identifying debarred or suspended Medicaid providers, but not for other contractors. PHHS personnel require non-provider contractors to certify that they are not debarred or suspended but do not verify the accuracy of these certifications.

PHHS personnel indicated the department's Contracts Task Force is in the process of establishing uniform contracting requirements for PHHS. The Task Force anticipates designing a system which will allow PHHS personnel to electronically verify the accuracy of contractor certifications. PHHS personnel indicated there is no target date for implementation of this system. Because verification procedures have not been established, PHHS is not complying with federal regulations. We believe PHHS could comply with federal regulations by manually comparing the federal list of debarred and suspended parties to the certifications obtained from its contractors. This list is available from the federal government at an approximate annual cost of $80. We do not believe the personal services cost associated with such a review would be significant.

Recommendation #13-13

We recommend PHHS comply with federal regulations concerning debarred and suspended parties.

Agency Response #13-13:

Concur. The department is in the process of changing its contracting procedures and will incorporate this recommendation in those changes.

Resolution of Quality Control Findings

The Quality Assurance Division conducts quality control reviews for the Medicaid (Medical Assistance Program CFDA #93.778), Aid to Families with Dependent Children (Family Support Payments to States-Assistance Payments CFDA #93.560), and Food Stamps (CFDA #10.551) programs. These reviews determine the accuracy of recipient eligibility and benefit determinations. Federal regulations require PHHS to take corrective action, including recovery of overpayments, on any errors that are identified. We reviewed 20 files to determine whether errors are resolved in accordance with federal regulations. We identified two files with combined overawards of $475 for the Aid to Families with Dependent Children program, that had not been resolved or recovered.

We determined that division personnel communicate their findings to the county welfare offices. County personnel are responsible for reviewing the findings and entering any overpayments on TEAMS for offset against future benefits. If county personnel disagree with the findings, they are required to notify the division. These notifications are filed and no further follow-up is performed to determine if the county's decision is appropriate. County personnel disagreed with quality control reviewers on the overawards identified above. According to county personnel, the overawards are either uncollectible or additional information exists to show it was not actually an overaward. Because PHHS does not have adequate error resolution procedures, it cannot ensure corrective action is taken on all errors and recovery of all identified overpayments is unlikely.

After this issue was brought to their attention, division personnel implemented additional error resolution procedures. According to division personnel, the new procedures are designed to make the quality control reviewers and county workers work together more closely prior to finalization of an issue.

We believe PHHS should establish administrative procedures to ensure quality control findings are fully resolved in accordance with federal regulations.

Recommendation #13-14
We recommend PHHS ensure its quality control resolution procedures comply with federal regulations.

Agency Response #13-14:
Partially concur. The department disagrees with the statement that county notifications are filed and no further follow-up is performed to determine if the county decision is appropriate. The department Program Integrity Unit reviews county notifications and makes the determination whether they are appropriate or not. The Program Integrity Unit then performs the necessary follow-up to inform the county of its determination and oversees corrective action if it is determined to be necessary. The Program Integrity Unit has procedures for this review and follow up.

There is no quality control requirement for the Temporary Assistance for Needy Children block grant. States set their own eligibility, but the department is continuing the established procedures for the review and resolution of quality control.

The Public Assistance Bureau has implemented a Letter of Agreement with the Quality Control Division to review 25 cases per month per region, and the department has hired regional quality assurance specialists to review 100 cases per month to catch errors and identify training needs. The bureau has also re-emphasized and provided training on claims establishment.

The bureau has procedures in place for quality control findings and is in the process of establishing procedures for quality assurance findings.

Allocation of Operating Costs to Food Commodities

PHHS maintains a warehouse for food commodity program inventories. Commodities for the following programs are housed at the warehouse: Food Commodities (CFDA #10.569), Food Distributions on Indian Reservations (CFDA #10.567), Summer Food Service Program for Children (CFDA #10.559), Nutrition Program for the Elderly (CFDA #10.570), and Food Commodities for Soup Kitchens (CFDA #10.571).

In April 1995, PHHS also became a storage and shipping point for commodities going to Indian reservations in the western region of the United States. In August 1996, PHHS began handling Food Distribution (CFDA #10.550) for the School Lunch Program administered by the Office of Public Instruction.

The warehouse operating costs are allocated among all PHHS programs that benefit from its use. Rent is allocated by the amount of physical space used while personnel and shipping costs are allocated based on the volume of commodities handled. PHHS bills the Office of Public Instruction a handling fee. This handling fee is used to offset the costs charged to the remaining commodities programs. Federal regulations specify that to be allowable, costs must be fairly allocated between programs when more than one program benefits from services provided.

We reviewed PHHS's procedures for allocating the warehouse operating costs. We determined the allocation methodology was last updated in 1993 and does not reflect certain changes in programs, staffing, and facilities. Since 1993, FTE increased due to handling commodities for the Indian reservations and the Office of Public Instruction. In addition, the commodities inventories were moved to a new warehouse. PHHS has also seen increased activity in the Food Commodities for Soup Kitchens program in comparison with the other programs served. As a result of these changes, we believe the administrative cost allocation may not comply with federal regulations and certain costs may not be allowable for the programs charged. PHHS should review and modify its cost allocation methodology to ensure costs are fairly allocated among programs.

Recommendation #13-15

We recommend PHHS review and revise its cost allocations to the food commodity programs to ensure compliance with federal regulations.

Agency Response #13-15:

Concur. The department will update its cost allocation process for the commodities warehouse and annually review the percentage charged to each program.

Women, Infants, and Children Federal Financial Reports

The Women, Infants, and Children (WIC) (CFDA #10.557) program provides eligible recipients with coupons which can be redeemed for approved food items at local grocery stores. PHHS is required to submit monthly and annual financial status reports showing the amount of coupons redeemed for the program. PHHS maintains a computer system which generates summary reports of monthly program activity. PHHS personnel use the system's coupon resolution report to prepare monthly federal reports and the posting summary report to prepare annual federal reports.

We reviewed three of the monthly federal reports prepared during our audit period. We determined that while the coupon resolution report agrees to the monthly bank statement showing the amount of coupons redeemed, the posting summary report does not always produce reliable amounts. The November 1996 posting summary report showed $862,588 in redeemed coupons while the resolution report showed $787,417, a difference of $75,171. The February 1997 and August 1997 reports contained differences of $74.65 and $54.64, respectively. Because of these differences, we have no assurance over the accuracy of the amounts reported on the monthly federal reports.

PHHS personnel indicated they use the coupon resolution report to prepare the monthly federal reports because it is the only system report that identifies the number of coupons issued and redeemed each month. PHHS personnel use the posting summary report to ensure the annual federal reports accurately reflect the total number of coupons redeemed. PHHS personnel should ensure the computer system generates accurate information. Correcting the logic used to generate the monthly reports should reduce the time required to adjust the information for the annual federal reports.

Recommendation #13-16
We recommend PHHS ensure the WIC computer system generates accurate and consistent summary reports.

Agency Response #13-16:
Concur. DPHHS will institute a process to ensure that all monthly and annual federal reports are accurate. A review of the system logic will be done to determine if corrections or a reconciliation of the posting summary to the resolution report is necessary.

Questioned Costs for Temporary Assistance to Needy Families Program

Temporary Assistance to Needy Families (TANF) (CFDA #93.558) is a federal block grant that funds Montana's welfare program. PHHS began administering this grant during fiscal year 1996-97. TANF replaced several federal financial assistance programs previously administered by PHHS, including the Aid to Families with Dependent Children (AFDC) (Family Support Payments to States-Assistance Payments CFDA #93.560) program. During fiscal year 1996-97, both TANF and AFDC were administered by PHHS in order to meet the needs of low-income families and children. PHHS used the TEAMS computer system to perform the eligibility and benefit determinations for both programs.

We reviewed the expenditure activity related to the TANF and AFDC programs during our audit. We identified a programming error within the TEAMS computer system which charged certain

AFDC activity to the TANF program. Federal regulations require PHHS to maintain an accounting system which accumulates and accurately summarizes accounting transactions for the purpose of financial reporting. As a result of the error, AFDC was undercharged and TANF was overcharged by at least $3,322 in fiscal year 1996-97. We question the $3,322 charged to the TANF program. We were unable to determine the total amount of AFDC activity charged to TANF. PHHS personnel have requested programming assistance to determine the total amount of the misstatements.

Recommendation #13-17
We recommend PHHS:

A. Modify the TEAMS programming to ensure expenditures are properly charged to the AFDC and TANF programs.

B. Calculate the amount of AFDC activity charged to TANF, process the necessary transactions to correct the accounting records, and submit revised federal reports.

Agency Response #13-17:
Concur. In August of 1997, an error was discovered in the way TEAMS reported costs to TANF/AFDC responsibility centers for county billing. The error was identified and a modification was made in TEAMS to ensure that the error would not occur again. SBAS reconciliations and corrections to county billing were made in December 1997. SBAS adjustments were made prior to Federal reports being submitted and therefore no corrected reports were necessary. All transactions have been corrected and TANF/AFDC responsibility centers report correctly.

Payroll Corrections Made Due to Untimely Submission of Time Sheets

PHHS employees are responsible for submitting time sheets at the end of each pay period. If an employee is unable to submit a time sheet in a timely manner, PHHS payroll personnel process payroll using the time sheet submitted by the employee for the previous pay period. Payroll personnel then adjust the payroll records to reflect the actual total direct and leave time reported when the current time sheet is received. Payroll personnel do not, however, compare the detail of the direct hours worked to ensure there were no changes between pay periods. Federal regulations state that for personal services costs to be allowable to a federal program, they must be necessary, reasonable, and directly related to the program charged. Many employees perform duties for multiple federal and state programs. An employee's allocation of time among these grants can vary between pay periods. For federal and state programs to be appropriately charged for the direct time worked, the detail of the direct hours worked must be correct.

We identified one instance where personal service costs were inappropriately charged to a privately funded program and a federal program in fiscal year 1997-98. We question $305 charged to the Foster Care-Title IV-E (CFDA #93.658) program. The private Kellogg grant was overcharged $766. Because no review and correction procedures for payroll charges exist at PHHS, we believe more unallowable costs to federal programs have occurred. It was not practicable to review all of the time sheets for the audit period to determine the amount of potential questioned costs. PHHS personnel should establish procedures to ensure personal service costs charged to federal programs are supported by the time sheets submitted by the employees.

Recommendation #13-18

We recommend PHHS establish procedures to ensure payroll is processed according to time sheets submitted for the current pay period.

Agency Response #13-18:

Concur. The Payroll Section has implemented new policies and procedures to eliminate this problem and provide accurate accounting on time sheets. The supervisor will document the policies and procedures in writing. Payroll has made the appropriate corrections for previous errors.

Audit Issues

Federal Single
Audit Reports

FY96 Financial Section

FY97 Financial Section